Ministry of Innovation and Science

Annual Report

1999 | 2000

Department of Innovation and Science

Alberta Science, Research and
Technology Authority (ASRA)

Alberta Informatics Circle of
Research Excellence Inc.

Alberta Research Council Inc.

Alberta Oil Sands Technology and
Research Authority

Alberta Agricultural Research Institute

Alberta Heritage Foundation for
Medical Research

Alberta
INNOVATION AND SCIENCE

+3

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Public Accounts 1999-2000

100-07535/

PREFACE

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Province of Alberta and the annual reports of each of the 18 Ministries.

The annual report of the Province of Alberta contains the consolidated financial statements of the province and a comparison of the actual performance results to desired results set out in the government's business plan, including a message from the Provincial Treasurer. The province's audited consolidated financial statements include the accounts of government entities consisting of departments (all departments combined form the General Revenue Fund), the Alberta Heritage Savings Trust Fund and other regulated funds, provincial agencies and Crown-controlled corporations.

This annual report of the Ministry of Innovation and Science contains the audited consolidated financial statements of the ministry and a comparison of actual performance results to desired results set out in the ministry's business plan, including a message from the Minister. The ministry's audited consolidated financial statements include the accounts of the department of Innovation and Science, provincial agencies and Crown-controlled corporations for which the Minister is responsible. The financial statements of each of these component entities of the ministry are also included in this annual report.

This annual report includes, either as a separate report or as part of the financial statements, the reports or statements prepared pursuant to the *Financial Administration Act*, to the extent that the ministry has anything to report. A summary of expenditures under each appropriation in the ministry, as required by the *Government Accountability Act*, is included in the financial statements of the department.

Financial information relating to the Alberta Heritage Foundation for Medical Research is also included in this annual report as supplementary information.

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Minister's Accountability Statement

"The Ministry's Annual Report for the Year ended March 31, 2000 was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at September 15, 2000 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report."

Lorne Taylor

Dr. Lorne Taylor
Minister of Innovation and Science

September 15, 2000

Message from the Minister

On behalf of the Government of Alberta, it is my pleasure to present the 1999-2000 Annual Report for the Ministry of Innovation and Science.

Created in May 1999, Innovation and Science consolidates all of government's initiatives and activities within Alberta's research and technology community. We recognize that a strong knowledge-based economy is key to Alberta's present and future prosperity.

The past year has been a significant one for the Ministry and the province as science, research and technology are at the forefront of the Government's agenda. We are continuing to work to position Alberta as a leader in information and communications technology (ICT) and life sciences research, to accelerate new knowledge and innovation in Alberta, and to provide important cornerstones for both knowledge-based economic growth, and a healthy and prosperous quality of life.

As part of our efforts to diversify the provincial economy in the ICT sector, we appointed a number of technology and business leaders to three committees which oversee and advise the government on the implementation of strategies outlined in our provincial ICT Strategy. This marked the beginning of an exciting new initiative in which the government and industry work closely together to strengthen our technological infrastructure, and to build an economic sector that will help this province succeed in the new global economy.

On October 26, 1999 we announced the creation of the Alberta Informatics Circle of Research Excellence (iCORE), aimed at attracting top researchers to conduct world-class ICT research at Alberta universities.

On November 9, 1999 Premier Ralph Klein announced the creation of a Premier's External Advisory Committee on ICT that provides high-level, global advice on the implementation of the province's ICT strategy. The committee, believed to be the only one of its kind in North America, is made up of some of the world's most influential technology leaders and decision-makers.

In recognizing that research and innovation are key to sustaining our current prosperity, the Spring Session opened with the tabling of an historic bill that established the $500 million Alberta Heritage Foundation for Science and Engineering Research (AHFSER). Bill One, the *Alberta Heritage Foundation for Science and Engineering Research Act*, established the organization and the Board of Trustees that will oversee the fund.

Thanks to Alberta's prosperous economy and growing revenues, the government invested $500 million in Budget 2000 to establish the fund. If provincial finances permit, an additional $100 million will be added to the fund each year for the next five years, making the endowment fund worth $1 billion by the province's centennial in 2005.

The endowment is an investment in Alberta's strong science and engineering base at our universities and in the industrial sector, and is a vital part of the province's strategy and commitment to build Alberta's emerging knowledge-based economy.

In addition to work in the area of ICT, Alberta universities and research institutions have been awarded a total of $54.8 million to support high quality research. These funds will support 46 research projects worth $165.4 million.

Projects that received funding this year include activities in the areas of energy, biotechnology, health, technology commercialization, ICT, climate change and science awareness and education. These projects will have an impact on our economy today in terms of jobs and opportunities for researchers and students, but they also represent an investment in

Management's Responsibility for Reporting

The Ministry of Innovation and Science includes:

Department of Innovation and Science
Alberta Science, Research and Technology Authority (ASRA)
Alberta Informatics Circle of Research Excellence Inc.
Alberta Research Council Inc.
Alberta Oil Sands Technology and Research Authority
Alberta Agricultural Research Institute

The executives of the individual entities within the ministry have the primary responsibility and accountability for the respective entities. Collectively, we ensure the ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and business plans, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the Minister of Innovation and Science. Under the direction of the Minister, I oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgements. The consolidated financial statements are prepared in accordance with the government's stated accounting policies.

As Deputy Minister, in addition to program responsibilities, I establish and maintain the ministry's financial administration and reporting functions. The ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money,
- provide information to manage and report on performance,
- safeguard the assets and properties of the Province under ministry administration,
- provide Cabinet, Treasury Board, the Provincial Treasurer and the Minister any information needed to fulfil their responsibilities, and
- facilitate preparation of ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling my responsibilities for the ministry, I have relied, as necessary, on the executive of the individual entities within the ministry.

Roger Palmer
Deputy Minister
Ministry of Innovation and Science
August 25, 2000

the future of our province and its people.

The Government of Alberta recognizes that stable funding is necessary to retain and attract the best and brightest minds, and to build Alberta's international reputation as a centre of excellence in research and development.

This year will always be remembered as an ambitious and productive one, in which the government began a legacy for the future. I look forward to the challenges ahead.

Lorne Taylor

Dr. Lorne Taylor

Minister of Innovation and Science

Overview

Ministry Highlights for 1999-2000

The coming together of different entities into a new ministry poses several challenges, one of which is the ability of the entities to continue with work started earlier and to ensure the original outcomes are attained. The following highlights include examples of Innovation and Science (INNSCI) entities realigning their efforts to successfully support the core businesses of the new ministry:

- Creation of the Alberta Heritage Foundation for Science and Engineering Research (AHFSER). This $500 million endowment fund guarantees support of a balanced, long-term, Alberta-based program of science and engineering research directed to the discovery of new knowledge and application of that knowledge for the benefit of Alberta's citizens, economy, communities and environment.
- Creation of the Alberta Informatics Circle of Research Excellence Inc. (iCORE), a provincially funded organization aimed at attracting and retaining top researchers to conduct world-class information and communications technology (ICT) research at Alberta's four universities.
- Creation of a Premier's External Advisory Committee on ICT that will provide high level, international advice on the implementation of the province's ICT strategy.
- $54.8 million was committed to be invested over three years to support high quality research at Alberta's universities and research institutions.
  - $5.5 million supported researchers and graduate students in key areas of research at all four Alberta universities.
  - $27 million supported infrastructure projects in areas such as biotechnology, engineering, and ICT, with the objectives of building research excellence, recruiting world-class faculty and providing opportunities for the training of highly-qualified personnel.
  - $22.3 million supported projects in strategic areas, such as energy, health, technology commercialization, and climate change to help ensure Alberta's leadership in these important areas and to support relevant training. Organizations receiving the funding include the University of Alberta, the University of Calgary, the University of Lethbridge, the Banff Centre, the Alberta Cancer Board, Alberta Energy and Utilities Board, Netera Alliance and the Edmonton Space and Science Centre.
- INNSCI developed a Corporate Information Management/Information Technology (IM/IT) Strategy that lays out a roadmap for government to be a model user in the application of information, knowledge and technology.
- The "One-Window Access to Services" study was undertaken to develop a business model and related business case to shift the delivery of government services from the current department-focused service delivery model to a citizen-focused model. The new model will offer citizens a choice of delivery channels through this window, including over-the-counter, by phone/fax, via mail and over the Internet.
- In November 1999, Canada's research-based pharmaceutical companies announced that they would be investing a minimum of $150 million in research and development (R&D) in Alberta over the next three years. This commitment is a result of the work INNSCI has done with the pharmaceutical industry.
- Alberta Agricultural Research Institute's (AARI's) Matching Grants Program leveraged $1 or more for every $1 invested. In 1999/2000, AARI invested $3.3 million under this Program. This amount along with private sector contributions supported projects with a total cost in excess of $6.6 million in areas of high priority for the agriculture and food sector.

- In its first full year within the Ministry of INNSCI, the Alberta Oil Sands Technology and Research Authority (AOSTRA) has invested over $7 million in 54 projects, ranging from fundamental research such as the Coordination of University Research for Synergy and Effectiveness (COURSE) to projects with commercial applications.
- AOSTRA and its partners in the Underground Test Facility funded the development of Steam Assisted Gravity Drainage technology from 1984 - 1997. This technology uses steam to help extract bitumen from oil sands which are buried too deep for surface mining and were previously considered to be unrecoverable. In 1999, a number of those partners and others announced commercial ventures worth a total of $2.96 billion. These include:
  - Suncor - $750 million investment in Firebag, Alberta
  - Gulf - $1.4 billion investment in Surmont, Alberta
  - PanCanadian - $370 million investment in Conklin, Alberta
  - Alberta Energy Company - $240 million investment in Foster Creek, Alberta
  - Japex - $200 million expansion in Hangingstone, Alberta
- Shell is proceeding with the $2.2 billion Albian Oil Sands project. The technology choices for bitumen extraction on this project are based on the experience gained at the Muskeg River Extraction Plant co-funded by AOSTRA.
- INNSCI assisted in the establishment of an Endowed Chair in Virology at the University of Alberta, Faculty of Medicine and Dentistry. This chair is funded by an endowment co-sponsored by Glaxo Wellcome Inc. INNSCI funded $1.25 million with Glaxo Wellcome Inc. funding $1.75 million. The funding will support the chair for the next five years.
- INNSCI, through the Office of the Chief Information Officer (CIO) and Information Management and Technology Services (IMTS) supported the efforts of government ministries over the past few years to address the Year 2000 computer issue. Government moved successfully into January 2000 without computer glitches.
- The Government's Core Human Resource Measures 1999/2000 Survey of Employees revealed that most INNSCI employees felt highly impacted by the recent reorganization. Despite this, there were higher than average levels of overall satisfaction and higher than average levels of agreement on most of the core measures of organizational performance, when compared to the results across government. The summary report stated that "For departments that still need to implement structural changes, INNSCI's recent experiences may serve as an example of how this can be done without having a negative impact on employee satisfaction or on their perceptions of organizational performance."
- Through our Contract and Corporate Services division, INNSCI was one of the first ministries to implement a shared services agreement for the provision of a significant portion of its human resource, information technology (IT) and finance services.

Performance Measures

An analysis of our performance measures reflects that Alberta is in a position to compete in the innovation-based economy.

- Sponsored research at Alberta universities continues to increase.
- Alberta continues to lead Ontario and British Columbia for the number of scientists, engineers, technologists and technicians as a percentage of our labour force.
- Total (federal, provincial and business) R&D expenditure continues to increase, notably business R&D expenditure.
- Alberta's business expenditure on R&D as a percentage of national business expenditure

on R&D remains constant.

- Alberta's Gross Domestic Product (GDP) derived from manufacturing continues to increase.
- INNSCI exceeded its targets on Customer Satisfaction with IT Services and Infrastructure Reliability.
- INNSCI employees indicated higher levels of overall satisfaction and higher than average levels of agreement on most of the core measures of organizational performance, when compared to results across government.

Financial Performance

Significant programs provided by INNSCI in 1999/2000 include:

- $69.0 million (or 35.3 per cent) for science and research,
- $2.0 million (or 1.0 per cent) for research and technology commercialization,
- $60.6 million (or 31.0 per cent) for information technology services, and
- $59.4 million (or 30.4 per cent) for the Alberta Research Council.

Operational Overview

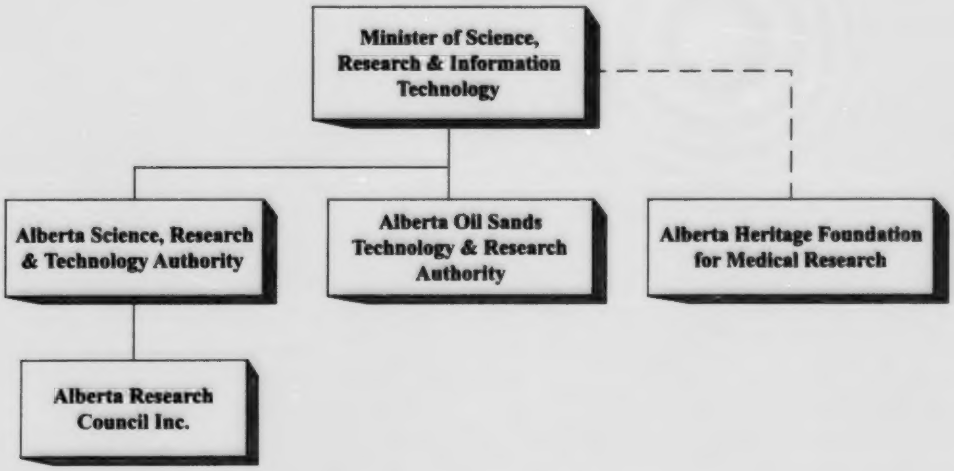
INNSCI was created as part of the government re-organization that was announced in May 1999. This move consolidated government's scientific research, development and application activities "under one roof."

The foundation for INNSCI was the former Ministry of Science, Research and Information Technology (SRIT). SRIT included the following provincial corporations:

- Alberta Science, Research and Technology Authority (ASRA),
- Alberta Research Council Inc. (ARC), and
- Alberta Oil Sands Technology and Research Authority (AOSTRA).

Chart 1 is the structure of SRIT prior to the government re-organization.

Chart 1
Before Government Reorganization (Prior to May 1999)
Ministry of Science, Research & Information Technology


Minister of Science, Research & Information Technology
Alberta Science, Research & Technology Authority
Alberta Oil Sands Technology & Research Authority
Alberta Heritage Foundation for Medical Research
Alberta Research Council Inc.

As a result of the government re-organization, the Alberta Agricultural Research Institute (AARI) was transferred to INNSCI. AARI is a provincial corporation that previously reported to the Minister of Agriculture, Food and Rural Development. INNSCI was further expanded through the addition of strategic research and technology programs from other government departments. This included:

From the former Public Works, Supply and Services:

- Information Management and Technology Services
- Office of the Chief Information Officer

From Economic Development:

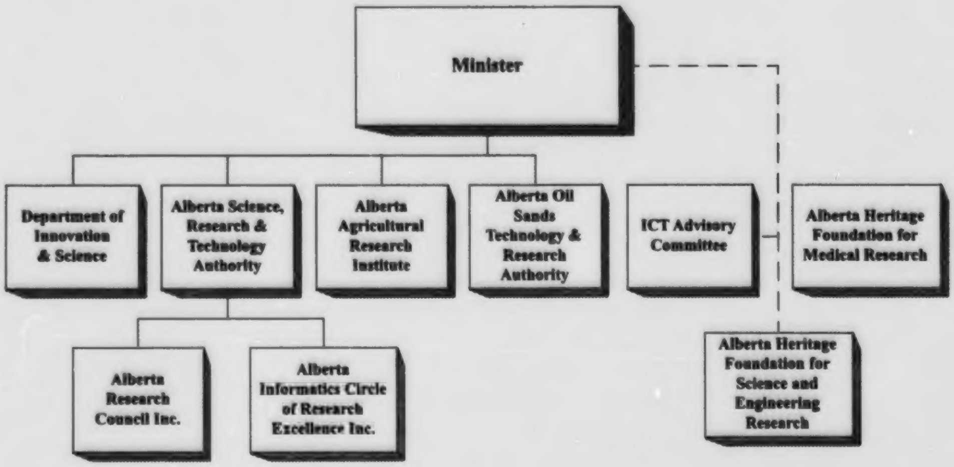
- Technology Commercialization Initiatives
- Forest Products Development

From the former Advanced Education and Career Development:

- Intellectual Infrastructure Partnerships Program
- Research Excellence Envelope

Chart 2 displays the entities reporting to the Minister of INNSCI after the government re-organization.

Chart 2
Innovation & Science Key Boards & Agencies
(effective April 1, 2000)


Minister
Department of Innovation & Science
Alberta Science, Research & Technology Authority
Alberta Agricultural Research Institute
Alberta Oil Sands Technology & Research Authority
ICT Advisory Committee
Alberta Heritage Foundation for Medical Research
Alberta Research Council Inc.
Alberta Informatics Circle of Research Excellence Inc.
Alberta Heritage Foundation for Science and Engineering Research

The following is a brief overview of each of the key boards and agencies:

Alberta Science, Research and Technology Authority (ASRA)

ASRA is an independent board of members of the business and research communities in Alberta. It seeks to enhance the contributions of science and research to the sustainable prosperity and the quality of life of all Albertans. As the senior science and research advisory group for the government, ASRA works through standing committees and task forces to develop strategic direction for investments in science and research.

Alberta Research Council Inc. (ARC)

ARC, a wholly-owned subsidiary of ASRA, was founded in 1921 and operated as a provincial corporation under the *Alberta Research Council Act* until April 1, 1999 when it was incorporated as a not-for-profit business under the *Business Corporations Act*.

ARC performs applied R&D on a contract or fee basis, and co-ventures with others to develop new technologies, deriving a return on investment from the commercialization of new products and services. ARC also conducts applied research for the public good and to support provincial science and technology needs and strategies. ARC is well known for its work in agriculture, biotechnology, energy, environment, forestry, health and manufacturing.

Alberta Informatics Circle of Research Excellence Inc. (iCORE)

iCORE is a wholly owned, board-governed subsidiary of ASRA. The mandate of iCORE is to attract and grow a critical mass of outstanding researchers in the fields of computer science, computer engineering, physics, mathematics and other ICT-related disciplines. Building on existing excellence and strengths in Alberta's universities, iCORE will form and support strong scientific teams in ICT. The iCORE Board takes strategic direction from ASRA.

Alberta Agricultural Research Institute (AARI)

AARI coordinates, supports and promotes research and technology in the agriculture and food industry. Strategic direction for AARI is set by an independent board of members associated with public and private organizations involved in the agriculture and food industry. Coordination of the strategic direction of ASRA and AARI is facilitated by having common directors on the boards for each organization.

Alberta Oil Sands Technology and Research Authority (AOSTRA)

The AOSTRA mandate is to facilitate research for the economic and sustainable development of our energy resources, specifically oil sands, heavy oil, and enhanced oil recovery in crude oil. Strategic direction for AOSTRA is set by an independent board of members associated with public and private organizations involved in the energy industry. Coordination of the strategic direction of ASRA and AOSTRA is facilitated by having common directors on the boards for each organization.

ICT Advisory Committee

The ICT Advisory Committee consists of members of the public and private sectors and provides recommendations and advice to the Premier, through the Minister of INNSCI, on implementing the government's ICT Strategy. This Committee develops the final recommendations on growing the ICT industry, developing a vigorous ICT infrastructure that benefits Albertans and establishing the province as a leader in the electronic delivery of government programs and services. The ICT Advisory Committee is responsible for dealing with both the strategic and operational aspects of the province's ICT strategy.

Alberta Heritage Foundation for Medical Research (AHFMR)

The AHFMR was established in 1980 through the *Alberta Heritage Foundation for Medical Research Act* (the *Act*). AHFMR was endowed with $300 million to establish a balanced, long-term program of basic biomedical, patient, and health research in the province for the benefit and health of all Albertans. Since 1980, AHFMR has contributed more than $600 million directly to the scientific community and has supported more than 6,000 researchers and researchers-in-training. Arm's-length from government, AHFMR is governed by a Board of Trustees and led by a President/Chief Executive Officer. Under the provisions of the *Act*, AHFMR publishes a separate annual report. The 1999-2000 financial statements for AHFMR and its subsidiary, the Alberta Foundation for Health Research, are included in this annual report. In addition, an overview of key activities and outcomes for 1999-2000 are included in this annual report.

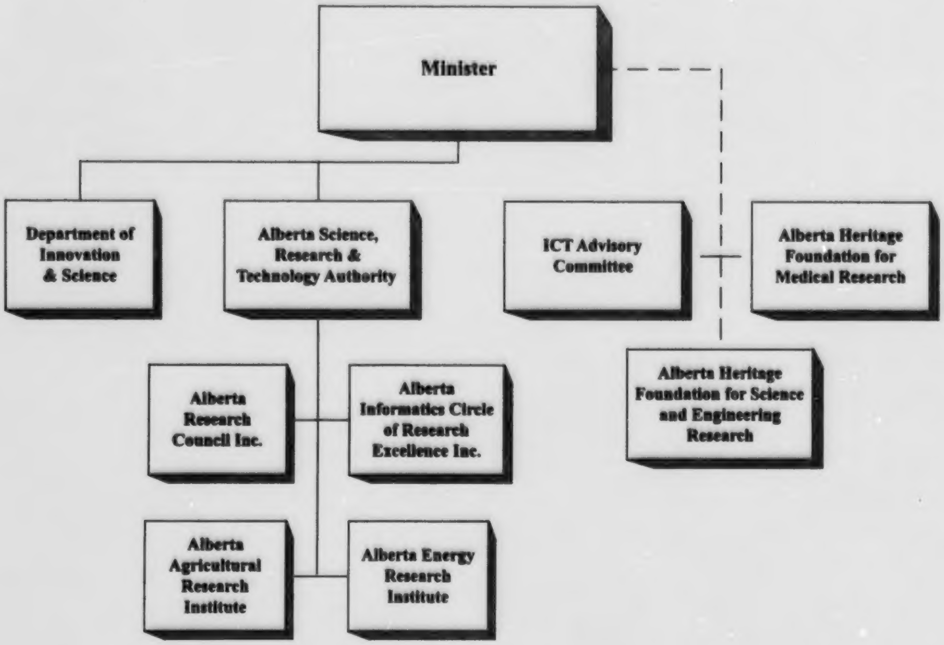
Alberta Heritage Foundation for Science and Engineering Research (AHFSER)

Modelled after the AHFMR, AHFSER was established on April 1, 2000 with an endowment fund of $500 million to support a balanced, long-term program of science and engineering research in Alberta. The purpose of AHFSER is to nurture the discovery of new knowledge to improve the quality of life of Albertans, their communities, environment and economy. AHFSER is a provincial corporation that reports through the Minister of INNSCI but is autonomous from the other entities of INNSCI.

The *Alberta Science, Research and Technology Authority Amendment Act 2000* received Royal Assent on May 30, 2000. As a result of this legislation, AARI and AOSTRA will be re-established as unincorporated boards that report to the Minister through ASRA. In addition AOSTRA will be renamed as the Alberta Energy Research Institute to reflect its expanded mandate for all types of energy research. Chart 3 displays the key boards and agencies reporting to the Minister of INNSCI effective August 1, 2000.

Chart 3

Innovation & Science Key Boards & Agencies (effective August 1, 2000)


Minister
Department of Innovation & Science
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ICT Advisory Committee
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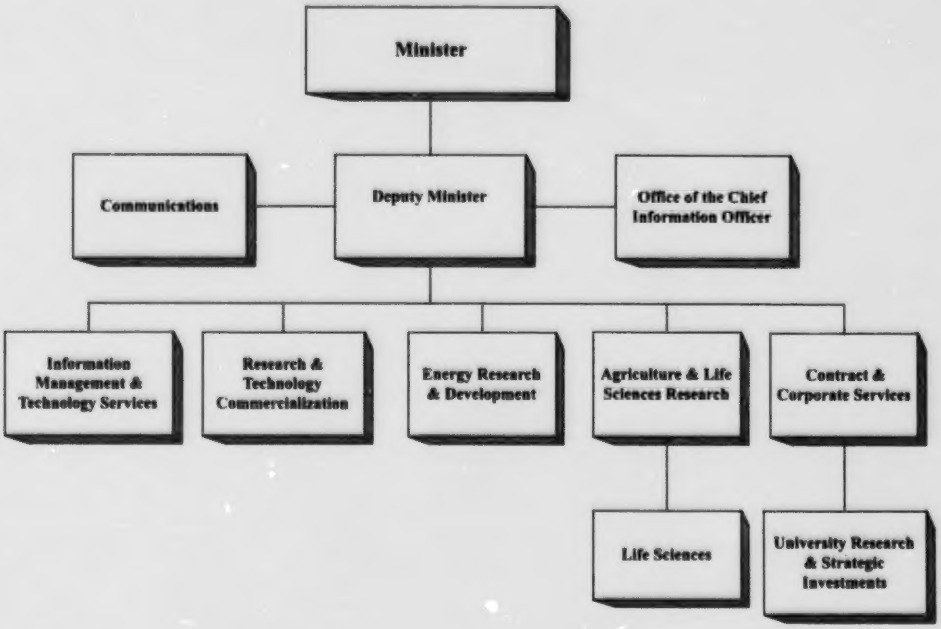
Alberta Heritage Foundation for Science and Engineering Research
Alberta Research Council Inc.
Alberta Informatics Circle of Research Excellence Inc.
Alberta Agricultural Research Institute
Alberta Energy Research Institute

Chart 4 provides a more detailed breakdown of the components of the Department of INNSCI.

Chart 4
Alberta Innovation & Science - Department Structure


Minister
Communications
Deputy Minister
Office of the Chief Information Officer
Information Management & Technology Services
Research & Technology Commercialization
Energy Research & Development
Agriculture & Life Sciences Research
Contract & Corporate Services
Life Sciences
University Research & Strategic Investments

The following is a brief overview of each of the departmental entities.

Office of the Deputy Minister

The Office of the Deputy Minister provides leadership to the department and advises the Minister on developing and managing strategic plans for research and development in areas of importance to Alberta, coordination of government science and research, promoting science culture in Alberta and effective use of technology throughout the government.

Communications

Communications provides strategic communication counsel and expertise to the Ministry, department and government to help promote and encourage the strategic use of technology, and the on-going commitment and investment in science and research in the province of Alberta.

Office of the Chief Information Officer (CIO)

The CIO provides focus and leadership to the planning and implementation of IM/IT initiatives to support government's vision of being a model user of technology in serving Albertans.

Information Management and Technology Services (IMTS)

IMTS develops and implements cross-government telecommunications, IT and records management solutions in support of the policy established by the CIO.

Research and Technology Commercialization

Research and Technology Commercialization is responsible for high-tech research and development policy advice as well as the development of business opportunities in ICT research. The entity works to increase the 'knowledge industry' in Alberta by growing, attracting and retaining firms specializing in industries such as electronics, microelectronics, telecommunications and information networks, computer technology including hardware and software, multimedia, biotechnology, advanced materials and manufacturing.

Energy Research and Development

Energy Research and Development supports the development of technologies that ensure economic and sustainable energy production and the development of technologies related to renewable energy. Working with AOSTRA, Energy Research and Development supports research on efficient and economical recovery and processing of oil sands and related products.

Agriculture and Life Sciences Research

Agriculture and Life Sciences Research supports and promotes research activities in the fields of biotechnology, health systems and pharmaceutical industries. Working with AARI, the group also coordinates, supports and promotes research and technology transfer in the agriculture, food and forestry industries.

Life Sciences

Alberta's life sciences industry spans a wide spectrum of technology areas, from agriculture and forestry to health, including such areas as drug discovery and bioinformatics. The Life Sciences group is working closely with ASRA to develop a life sciences strategy for Alberta.

Contract and Corporate Services

Contract and Corporate Services provides the financial, planning, human resources, accommodation and central records functions to the department primarily through contracts for transactional services with other departments or shared service "units".

University Research and Strategic Investments

University Research and Strategic Investments coordinates grant funding processes for the Intellectual Infrastructure Partnership Program, Research Excellence Envelope and ASRA grant programs. The group also coordinates the review of grant applications, specifies grant conditions and accountability, manages contracts and payments, ensures conditions are met and monitors the results achieved.

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Our Core Businesses

The Ministry of INNSCI, as represented in Charts 2 and 4 (pages 13 and 17), draws together all of the research and technology activities and initiatives within government under one organizational structure. The ministry is comprised of individuals who are working collectively with boards and agencies to ensure that Alberta's innovative nature and scientific community stays strong.

The 1999-2000 business plan for the Ministry of INNSCI amalgamated the core businesses of the Ministry of Science, Research and Information Technology (SRIT) with new core businesses as identified by the Executive Committee of INNSCI in October 1999 and reviewed by the ASRA Board at their October 22, 1999 meeting. The core businesses identified for INNSCI are:

1. Science and Research

- Managing and funding strategic investments in science and research.
- Coordinating government science and research.
- Providing strategic leadership for science and research in Alberta.
- Promoting science culture in Alberta.

2. Technology Business and Industry Growth and Development

- Increasing the "knowledge industry" component of the Alberta economy by growing, attracting and retaining firms.
- Increasing the application of technology throughout the economy.
- Amending performance measures to align with government direction in the new economic policy, *Get Ready Alberta*, released in January, 2000.

3. Government Information Technology

- Coordinating the efficient and effective use of computer technology, voice and data networks, information systems and records management within government.
- Establishing cross-government policies and standards for ICT to improve the efficiency and flexibility of government.
- Identifying, facilitating and providing cross-government solutions for ICT.
- Identifying and promoting best practices through cross-government initiatives.

Analysis of Key Activities in the Past Year

Research Alignment

The *Alberta Science, Research and Technology Authority Amendment Act 2000* (Bill 7) was proposed to reflect the ongoing realignment of science and research under a single authority. (The intent of Bill 7 is to have three institutes under ASRA with each institute focused on one of the three key industries in Alberta: agriculture, energy and forestry.) AARI will continue under the same name, AOSTRA will be renamed to the Alberta Energy Research Institute effective August 1, 2000 and a new forestry board, the Alberta Forestry Research Institute, will be created effective April 1, 2001. The *Amendment Act* will ensure that the Ministry and its boards run efficiently with appropriate accountability and governance and that operations are streamlined and simplified. This is consistent with the results being sought in the Government Reorganization Secretariat's review of agencies, boards and commissions. Bill 7 received Royal Assent on May 30, 2000.

AHFSER was established on April 1, 2000 through the *Alberta Heritage Foundation for Science and Engineering Research Act*. AHFSER was endowed with $500 million to support a balanced, long-term program of science and engineering research, based in Alberta, and directed to the discovery of new knowledge and application of that knowledge for the benefit of Alberta's economy, communities and environment. AHFSER is a provincial corporation that reports through the Minister of INNSCI but is autonomous from the other entities of INNSCI.

INNSCI Research Investments Program

The INNSCI Research Investments Program is a new competitive funding program that will support selected science and research initiatives of strategic importance to Alberta. The program combines the Intellectual Infrastructure Partnership Program and ASRA's competitive funding program into a single program with three distinct funding streams:

- Science Awareness and Promotion
- Research Infrastructure
- Enabling Research Application and Technology Transfer

All three streams share the overall objectives of promoting quality, innovation, and supporting initiatives that will be of strategic value to Alberta. In addition, the program will support the efforts of eligible organizations in Alberta who undertake initiatives that foster a science culture in the province, and enhance Alberta's capacity to capitalize on the benefits of research through supporting the bridges that enable research application and technology transfer.

Like the two programs that it replaces, the new program will continue to be a mechanism to leverage support from other sources such as the Canada Foundation for Innovation (CFI) and the private sector in order to maximize the research dollars flowing into Alberta.

Year 2000 (Y2K) Initiatives

INNSCI through the Office of the CIO, assisted in the establishment of Y2K Alberta, in conjunction with Disaster Services in Municipal Affairs. Y2K Alberta was a voluntary coalition of more than 60 organizations responsible for providing essential services in the province. This coalition included utility companies, health care providers, emergency organizations and municipalities all working together and sharing information on the Year 2000 status of their systems to minimize the potential impact of Year 2000 on Albertans. The group first met in December 1998 to address the Year 2000 issue.

INNSCI coordinated a Cross-Government Year 2000 Committee comprised of representatives from every government ministry. Each member of the Cross-Government Year 2000 Committee was responsible for their ministry's Year 2000 plan, with the overall government effort focussed on addressing all computer applications across government. Of the over 400 computer applications identified, 160 were deemed to be "mission critical" or critical to the continued operation of government. "Mission critical" systems included government grants and payment systems, environmental monitoring, student record keeping, taxation and financial systems and health care issues tracking.

The Cross-Government Year 2000 Committee was supported by a Year 2000 Team from IMTS. The Year 2000 Team provided assistance to all government ministries to reduce duplication of effort for common initiatives (such as vendor information on product Year 2000 readiness). The Year 2000 Team also undertook research and analysis of Year 2000 activity. The Cross-Government Year 2000 Committee was then provided with information, advice, and best practices recommendations to combat the Year 2000 issue effectively.

Development of IM/IT Strategy

Over the past year, the Office of the CIO has been developing a strategic plan to assist the government in becoming a model user of technology. Working with a committee comprised of CIO Council representatives as well as input from Deputy Ministers and private sector representatives, this cross-government initiative will set the direction and outline specific actions to ensure the government and Albertans are provided with the maximum benefit from our investment in technology.

ICT Advisory Committee

In 1999, INNSCI appointed a number of technology and business leaders to three committees that will oversee and advise the government on the implementation of the key goals in the provincial ICT Strategy. Implementation of the strategy was one of the key responsibilities assigned to INNSCI when the department was created in May 1999. The ICT Strategy, which was developed in consultation with business, industry, universities and government departments, is aimed at growing Alberta's ICT sector. The private-public sector ICT Advisory Committee will be supported by two sub-committees which will focus on ICT infrastructure and ICT business growth respectively.

The ICT Advisory Committee will also receive advice on research, training, policies and global trends from the Premier's External Advisory Committee on ICT which is made up of leaders of some of the world's leading technology companies and a Nobel Laureate in Physics, all of whom have strong ties to or roots in Alberta.

Support For a Highly Qualified Workforce in Alberta

- iCORE was created to attract and grow a critical mass of outstanding researchers in the fields of computing science, computer engineering, physics, mathematics and other ICT related disciplines. ASRA has committed $30 million to iCORE over its initial three years. iCORE is intended to be a long-term program in Alberta to help implement the ICT strategy.
- Approximately $5 million of AARI funding is used for research staff most of which are graduate students.

Support For Quality Research and Technology Infrastructure in Alberta

- Research infrastructure, a key to Alberta's economic growth, was supported through INNSCI funding. $24 million was committed to 17 research infrastructure projects. These initiatives provided state-of-the-art research equipment and facilities to support the excellence of Alberta's science and research infrastructure. $22.3 million was committed to 29 projects, the majority of which supported infrastructure in key areas.

- The funding commitment by INNSCI helped lever partner funding from federal government, private sector, community and other sources for Alberta's research infrastructure. On average, leverage for research infrastructure projects was approximately 1.5:1 ($1.50 for every dollar invested), and approximately 3:1 ($3 for every dollar invested) for strategic projects. INNSCI funding also helped researchers attract support from the federal granting councils and the CFI New Opportunities program.
- The technologies and capacities of the government shared voice and data networks were upgraded to facilitate Ministries' increased networking needs. Government data centres also were upgraded to increase data storage capacity and improve operational effectiveness.
- The Western Economic Partnership Agreement (WEPA) was signed in 1998 and committed $40 million in federal and provincial cost-shared funding to joint Alberta and federal priorities. In 1999, $1.895 million was committed to seven WEPA projects related to ICT and technology commercialization which were directly supported by INNSCI.
- INNSCI released a Request for Proposal with the intent to further the development and implementation of high-speed network infrastructure in Alberta by forming a strategic alliance with the private sector. This will provide Internet access to learning institutions and health facilities, as well as a large percentage of homes and businesses across Alberta.

Strategic Leadership

- Strategic leadership at the federal and interprovincial level has been provided by INNSCI. Departmental officials represented Alberta in matters related to federal initiatives such as the Canadian Foundation for Innovation, Genome Canada, Canadian Institutes of Health Research and were involved in discussions regarding innovative approaches by Statistics Canada to gather needed data about knowledge based sectors. Alberta also participated on the Pan Western Biotechnology Officials committee.
- In October 1999, Trade Team Alberta (including representatives from INNSCI) hosted a successful expatriate event in San Jose to promote Alberta's ICT Strategy and to encourage Alberta alumni residing in the Silicon Valley region to return to the province. Over 110 former Albertans attended the event. Promising follow-up discussions have taken place with a number of individuals and/or corporations who continue to express serious interest in doing business in Alberta. Alberta universities and Canadian Consulates are eager to participate in future events.
- INNSCI worked with BioAlberta, Alberta's bioindustries association, to promote this sector, within and outside of Alberta. This included extensive preparation for the Alberta mission to BIO 2000 in Boston, the world's largest international bioindustries conference. The Alberta delegation included a growing number of private sector companies.

Support and Promotion of Technology Commercialization Efforts

- AARI funds research and technology transfer (commercialization) projects through a competitive process guided by agriculture and food sector priorities. The costs eligible for funding by AARI are operating costs. However, the fixed costs of the projects (i.e., charges for land, buildings and power, as well as the salary of the principal researchers and in some cases support staff) are paid by the research organization. Hence, every AARI Matching Grant project leverages funds and resources from both performing and funding organizations. AARI's value added Technology Transfer program funded 12 projects to aid commercialization of new products. Results included:
  - development of three value-added

market ready products from under utilized cuts of beef,

  - a new nutraceutical product derived from bovine trachea, which increases the value of the offal by 100 times over its traditional uses, and
  - development of an extract from chamomile plants to treat fungal infections in human lungs.

- ASRA supported the development of early-stage business incubators on university campuses to encourage business development from university research.
- INNSCI coordinated and led the development of the Alberta Inventors' Information Index (Ai3), a new Internet site which provides a continuum that outlines the steps involved in commercializing an idea or product. It represents the first step of a collaborative and coordinated process among government stakeholders (all three levels) to assist Alberta's inventors, innovators, small and medium sized enterprises (SMEs), and researchers to commercialize their products/services.
- WEPA (Phase 2) funds have been committed to support the Innovation Centres in Edmonton and Calgary. These centers build a support network/infrastructure for emerging hi-tech companies in the province, cooperate with federal counterparts in the development of infrastructure, and provide advice, mentoring, marketing and new company formation assistance to emerging companies. INNSCI participates on the management committee for both centres.
- INNSCI and industry associations piloted six venture capital fairs over the past year that focused on environmental technology, biotechnology, and ICT. One of the higher profile fairs was the Matching Dollars with Opportunities Venture Capital Fair, held on May 12, 1999. The Matching Dollars Fair was organized by the Electronics Industry Association of Alberta (EIAA) in partnership with INNSCI, Alberta Economic Development, TRLabs and others. The goal of the event was to facilitate the building of new relationships and/or the strengthening of existing relationships between advanced technology companies in Alberta and venture capital investors with the prospects of encouraging business and sector growth. 81 people attended the event and 13 companies presented their business development plans to 26 investment organizations. The event was a proactive approach to encourage business development growth for its members and Alberta's ICT industry. Overall satisfaction levels with the event were 74% with all survey respondents indicating support for future events.
- The Connectivity 2000 e-commerce awareness strategy was launched jointly by INNSCI and Economic Development. Under this strategy, 13 workshops were delivered throughout Alberta promoting the value and use of e-commerce. The workshops completed the first step of Connectivity 2000, which will see further activities in the form of a webcast, conference support, an e-commerce toolkit for SMEs, and further workshop development over the next fiscal year.
- The On-Farm Demonstration program funded 112 projects in 1999/2000 that encouraged producers to adopt research results. Recent demonstration projects included:
  - introduction of 150 new special crops in the Peace River region,
  - new management practice of fall seeding canola, and
  - more effective use of pesticides.
- AARI-funded research has advanced diversification opportunities in the agriculture and food sector by developing five pea varieties specially suited for production in Alberta and by demonstrating to producers, at the farm level, the advantages and the technology to successfully and profitably grow field peas as part of a diversified farm enterprise.
- A report, commissioned by INNSCI and Alberta Economic Development and released on March 30, 1999 by

PricewaterhouseCoopers, titled ***Building Alberta's Economy Through Emerging Technology*** created significant interest in emerging technologies in Alberta that have the potential to generate economic growth and are supported by infrastructure and expertise. As a follow-up to the report, an Emerging Technologies Forum that will concentrate on the ICT and life sciences sectors is planned for October 2000. The forum will bring players in the identified emerging technologies together to partner in bringing these technologies to a commercial stage.

High Technology Business Attraction and Retention Efforts

- INNSCI promoted Alberta extensively in its dealings with Ford Credit Canada. On August 10, 1999, Ford Credit Canada announced that it would open a national Ford Credit Centre in Edmonton. The centre will provide a consolidated Canadian customer support and call centre service. It is expected to bring about 500 new value-added jobs to Edmonton. Big purchase items will be sourced on a national account basis, but all other materials will be sourced from local Alberta and Edmonton suppliers. The centre is expected to open in November 2000.
- INNSCI played a key role in convincing two companies established in Alberta, Harris Wireless and GE Harris, to maintain their presence in Alberta. The Calgary branch of Harris Wireless was considering relocation out of the province in conjunction with a change in mandate and product line. GE Harris wished to consolidate its facilities (3 locations in Calgary) and was considering relocating some or all of its operation to Mexico. In both cases, INNSCI intervened and presented the Alberta Advantage business case. Both organizations responded favourably by retaining their operations in Alberta.
- The announcement by Convergys to locate its 1000-job call centre in Edmonton is a direct result of work done by Team Alberta, a call centre and attraction initiative spearheaded by Alberta Economic Development (now INNSCI staff). The Convergys decision will help to attract other corporate call centre activities, and local firms will benefit from the sale of supplies, equipment and services to Convergys. In 1999/2000, at least twelve companies approached the province regarding potential call centre locations. Negotiations are ongoing with a number of these clients.

Stewardship of Resources and Environment

- AOSTRA developed a strategic plan for energy research for sustainable energy resource development.
- AARI sponsored a report by S.J. Campbell Investments Limited on ***Growth Strategies & Research Investment in Agriculture and Food in Alberta***, which identified strategies to achieve targeted growth in Alberta's agriculture and food industries through R&D and technology transfer.
- The forest products research program was transferred from Economic Development to INNSCI in 1999. The objective of this research program is to provide partial financial support to projects that will lead to improved utilization of Alberta wood species through science and technology, and ultimately contribute to the conservation and sustainable management of Alberta's forest resources. The program consisted of 13 projects with a total value of $598,000. In each project, industry and a research organization were involved and in most cases their financial contribution exceeded that of the government.
- INNSCI played a key role in leading and supporting the multi-stakeholder task force and working group that drafted the technology strategy for Climate Change Central. Climate Change Central was developed by government in response to public concern over greenhouse gas issues.
- Addressing climate change is also a key component of the AOSTRA and AARI strategies. AOSTRA has been involved in several climate change initiatives and

AARI funded a research coordination project on nitrous oxide, one of the most potent and significant agricultural sources of greenhouse gas. The focus of the AARI project was a workshop at which scientists developed a draft research plan as a basis for developing collaborative, coordinated research projects to more effectively find answers to address this emerging issue.

Excellence in the Delivery of Government Services

- INNSCI successfully coordinated Year 2000 and Business Continuity Planning across government and ensured continuity of IMTS central services (see page 24, Y2K Alberta).
- INNSCI coordinated the Alberta Showcase at the annual Technology in Government Week Forum (Ottawa)—the largest forum in the world on the use of technology to improve government services and operations. The event is devoted to discussing and advancing the body of knowledge on the management of information and innovative use of technology to improve government service delivery.
- As of March 31, 2000 all government ministries adopted a single e-mail naming convention (firstname.lastname@gov.ab.ca) and agreed to support a single, central, cross-government e-mail directory. This will not only increase the efficiency of government communications, but also will provide the foundation for future collaboration between ministries.
- INNSCI supported the implementation of the Alberta Corporate Service Centre (ACSC) in evaluating the costs and benefits of government-wide IT services and operations.
- The formation of a shared service arrangement for research and technology commercialization between INNSCI and Economic Development is an innovative approach in extending the concept of shared services to a program delivery area. The benefit of this arrangement is that the two departments accomplish key initiatives within their respective business plans without duplicating resources.
- INNSCI provided project management, resources and Steering Committee membership to lead the One-Window Access to Services Project with Government Services. This cross-government initiative is focused towards developing a customer-focussed service delivery model which will offer individual Albertans and businesses secure access via a common window to information, products and services of government, a stable environment for conducting business transactions, and the ability to provide information to government electronically.
- INNSCI developed an IM/IT strategy for the Alberta government to outline specific strategies and actions, to ensure that government and all Albertans get the most benefit from their investment in IT, and to make the Government of Alberta a model user of information, knowledge and technology in electronic delivery of services to Albertans.
- Developed a government-wide IT Standards Management Process to take advantage of best practices for lowering application acquisition, support and development costs.
- Developed recommendations and direction for an initial IT Security Office in order to instill a level of trust and assurance that the government's information holdings are secure and to enable Ministries to make accountable security decisions that balance costs with risks.
- Fostered teamwork, collaboration and sharing across all ministries for the management, use and implementation of technologies through the CIO Council and the IT Advisory Council.
- In March 2000, INNSCI hosted a successful government IT conference, "Insight 2000", which focused on the following themes: Leadership and Strategy in Electronic Service Delivery, Achieving Customer Satisfaction using Electronic Service Delivery, and Security and Privacy on the Internet. 88 per cent of those surveyed were satisfied or very

satisfied with the conference.

- Implemented Corporate Process Renewal (CPR) Software in IMTS to enhance the strategic execution of work through improved coordination of initiatives. This software has improved communication among staff and assists in the management of initiatives. Two of the benefits are the availability of shared information and the ability of staff to review work and electronically flag issues for management.

Promotion of the Benefits of Science and Innovation

- ASRA provided $750,000 to the Science Alberta Foundation to aid in fostering an awareness of the contribution that science and technology make to our standard of living. By providing valuable educational resources, learning programs and community services, Science Alberta Foundation is working to develop and foster a culture of knowledge and innovation throughout the province. In 1999, Science Alberta Foundation travelled to 128 communities, reaching over 73,000 Albertans.
- ASRA committed an additional $970,000 over three years to three innovative projects which will further promote science education and awareness.
- INNSCI provided $20,000 to the Dinosaur Country Science Camp (Drumheller)—recipient of the 1999 Alberta Science and Technology Leadership Foundation (ASTech) Award for Excellence in Science and Technology Public Awareness. The Dinosaur Country Science Camp helps children and families learn about the natural ecosystems of the badlands through field research and hands-on activities in paleontology, geology, archaeology, entomology and mammalogy. INNSCI funding was used to sponsor camp activities.
- INNSCI established a $10,000 award for Leaders of Tomorrow as part of the ASTech program. The award will be presented annually at the ASTech Awards.
- INNSCI coordinated province-wide promotional activities for Science and Technology Week in October 1999.
- INNSCI initiated a provincial science awareness and education network that will include an inventory of all science awareness and education activities underway in the province, a database of all science and technology organizations and manage a consultation on how to better focus activities, resources and funding to promote and enhance a science culture in Alberta.

Report of the Auditor General on the Results of Applying Specified Audit Procedures to Key Performance Measures

AUDITOR
GENERAL
Alberta

To the members of the Legislative Assembly:

I have performed the following procedures in connection with the Ministry of Innovation and Science's key measures included in the *1999-2000 Annual Report of the Ministry of Innovation and Science* as presented on pages 33 to 53.

1. Information obtained from an independent source, such as Statistics Canada, was agreed with the information supplied by the stated source. Information provided internally was agreed to the reports from the systems used to develop the information.
2. The calculations which converted source information into reported measures were tested.
3. The appropriateness of the description of each measure's methodology was assessed.

As a result of applying the above procedures, I found no exceptions. However, these procedures do not constitute an audit of the set of key measures and therefore I express no opinion on the set of key measures included in the *1999-2000 Annual Report of the Ministry of Innovation and Science.*

Original signed by

Peter Valentine, FCA

Auditor General

Edmonton, Alberta

August 25, 2000

Results Analysis

Goals and Measures

INNSCI identified eight goals in its 1999-2002 Business Plan. Six of the goals reflect government's commitment to the Alberta Advantage in the areas of science, research, and technology. The other two goals reflect the ministry's desire to be an effective, efficient, and innovative contributor to government.

The ministry's new goals were developed in consultation with ministry staff. The development committee met four times over the summer and early fall to discuss the vision, mission and core businesses of INNSCI to develop goals that would reflect the mandate of the new ministry and allow staff to see where they fit in the new organization.

The following is a discussion of results achieved for the performance measures identified in the 1999-2002 Business Plan.

Goal 1: Highly qualified workforce to support innovation and science.

Key Performance Measure: Sponsored Research at Alberta Universities[1]

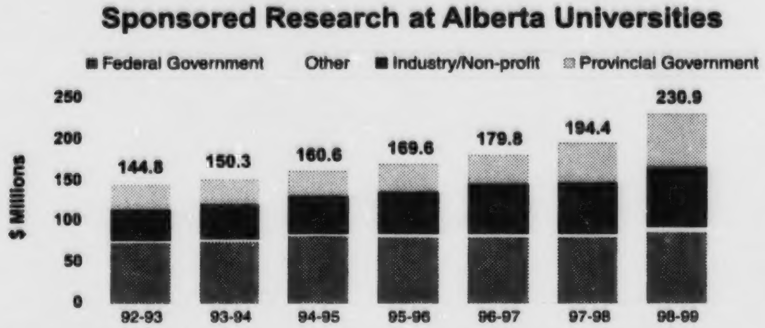
Discussion (Figure 1):

The ability of universities and teaching hospitals to attract research funding is an indicator of the quality of their faculty and their research programs. The more funding these institutions can attract, the better able they are to attract and retain world-class researchers. World-class researchers, in turn, attract a critical mass of talent, further enhancing the strength of the workforce which supports science and innovation.

Figure 1 shows the increase in total sponsored research funding and the changes within each sector. During fiscal year 1998/99, approximately $230.9 million in direct external funding, in support of research, was received by Alberta's four universities. Total sponsored research funding from all sources to Alberta's university system increased by approximately 28% between 1996/97 and 1998/99.Total sponsored research funding from all sources to Alberta's university system has been increasing each year for the past seven years and is reflective of the quality of research being conducted in Alberta universities. The increase in Industry/Non-profit funding is an indicator of the increasing relevance and importance of the universities' research effort to the community and business sector. The increase in provincial government funding reflects a recognition of the vital importance of research to the innovation system which is central to economic competitiveness and quality of life concerns.

INNSCI recognizes the importance of timely and relevant performance data to measure its performance. It is agreed that lags in data availability make our analysis less meaningful in terms of drawing conclusions about what is happening today. INNSCI is continuing to work with Statistics Canada and other organizations to get more timely data and to look at the possibility of alternative measures for which timely data are readily available.

FIGURE 1



	92-93	93-94	94-95	95-96	96-97	97-98	98-99
▨ Provincial Government	$31.4	$30.8	$30.8	$35.4	$35.5	$47.7	$65.4
■ Industry/Non-profit	$37.2	$40.8	$44.6	$49.8	$59.5	$61.5	$72.9
Other	$3.1	$4.1	$4.0	$4.6	$5.0	$6.0	$6.4
▨ Federal Government	$73.1	$74.6	$81.0	$79.8	$79.8	$79.2	$86.2
Total	$144.8	$150.3	$160.6	$169.6	$179.8	$194.4	$230.9

Source: Changed from Statistics Canada to the University of Alberta: Research Grants Office; University of Calgary: Financial Services University of Lethbridge: Financial Services; Athabasca University: Office of the VP, Academic. This change was due to our desire for timely data.

Goal 1: (Cont'd) Highly qualified workforce to support innovation and science.

Key Performance Measure: Natural and Applied Sciences, and Related Occupations (includes scientists, engineers, technologists and technicians).[ii]

Discussion (Figure 2):

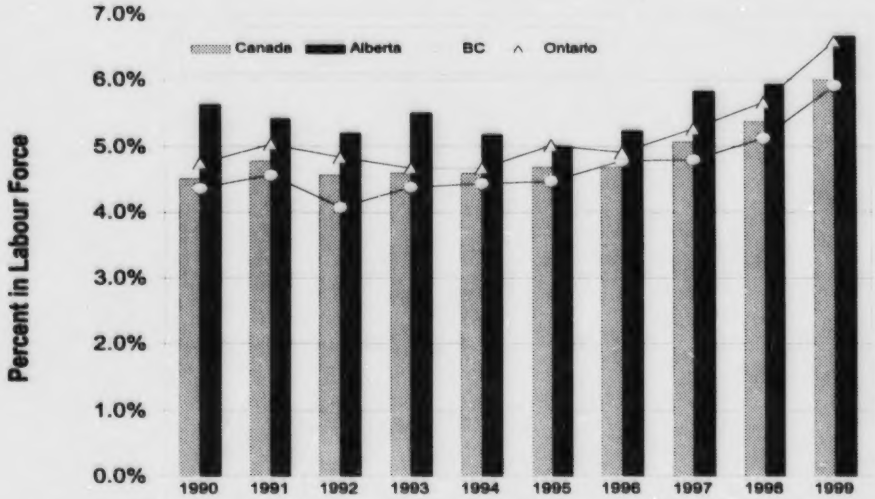
Scientists, engineers, technologists and technicians play a critical role in the innovation-based economy as creators and implementers of the new ideas that result in new processes and products. As Figure 2 illustrates, Alberta held a lead since 1996 over Ontario, British Columbia and the Canadian average in the proportion of those employed in the natural and applied sciences and related occupations. This indicates that Alberta is in a strong position to capitalize on the opportunities presented by the growing innovation/knowledge-based economy.

Figures in the graph were based on the following calculation:

[(workers in the natural & applied sciences & related occupations)/(Total labour force)]x100.

FIGURE 2

Natural and Applied Sciences and Related Occupations
(includes scientists, engineers, technologists and technicians)



	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
▨ Canada	4.5%	4.8%	4.6%	4.6%	4.6%	4.7%	4.7%	5.1%	5.4%	6.0%
■ Alberta	5.6%	5.4%	5.2%	5.5%	5.2%	5.0%	5.2%	5.8%	5.9%	6.7%
BC	4.4%	4.6%	4.1%	4.4%	4.4%	4.5%	4.8%	4.8%	5.1%	5.9%
^ Ontario	4.7%	5.0%	4.8%	4.7%	4.7%	5.0%	4.9%	5.3%	5.7%	6.6%

Source: Statistics Canada - 71F0004XCB 1999 Labour Force Survey Historical Review, Table 11AN

Goal 2: Quality science, research and information and communications technology infrastructure.

Key Performance Measure: High-Speed[iii] Connections for Schools, Libraries and Community Centres.

Discussion:

For 1999/2000, data are available on schools[iv] and libraries[v]. Community centres will not be measured as there is significant overlap in the numbers due to the fact that community centres usually contain a school and/or library.

In 1999/2000, a determination of baseline estimates was undertaken to enable us to properly direct our efforts to support the development and implementation of a world-class high-speed ICT infrastructure. Targets related to the development and implementation of high-speed network infrastructure will be developed and this measure will be adjusted to align with those targets.

1999/2000 Baseline - Percent of schools with high-speed connections – 15.30%
The percentage of schools with high-speed connections was determined in a joint effort between Alberta Learning and INNSCI. Alberta Learning sent a survey to all Alberta school jurisdictions. As a result of the survey and a number of follow-up calls, INNSCI was able to construct a database which provided connectivity statistics and our baseline estimate.

1999/2000 Baseline - Percent of public libraries with high-speed connections – 1.46%
The percentage of public libraries with high-speed connections was determined from information provided by the Alberta Public Library Electronic Network connectivity project leader. Additional information is now being collected from The Alberta Libraries group which will be used to provide connectivity information for 2000/2001.

Currently, 100% of schools in Alberta who wanted to connect to the Internet have been connected as a result of the provincial program or through local school jurisdiction initiatives. In order to take advantage of all that this technology can offer, our schools need access to a high-speed network. High-speed access enables schools to use tools like video-conferencing to enrich the learning experience of Alberta students regardless of where they live.

A recent survey conducted by Angus Reid and the Colombus Group revealed that 76% of Canadian Internet users feel that the Internet has had a significant impact on their lives in a variety of areas such as learning, communication and entertainment[vi]. For this reason, government has an interest in ensuring Albertans have equal opportunity for access to the internet. Libraries serve as important access points for Albertans who are not able to access the internet from home or work. In 1999, 5% of Alberta households indicated they access the internet from a public library[vii]. The possibility for libraries to access the internet at high-speed can only enhance the range of applications available to Albertans.

Goal 3: Internationally competitive science and research system.

Key Performance Measure: R&D Expenditure in Alberta by Source

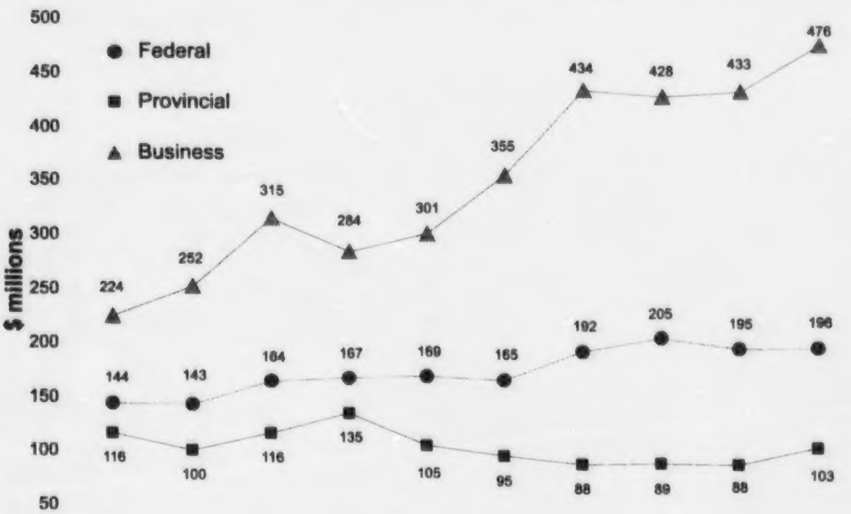
Discussion: (Figure 3)

In an innovation-based economy, investment in science and R&D is the primary driver of business growth and success. The competitiveness of our science and research system is directly influenced by the levels of investment in R&D. Figure 3 illustrates that business expenditure on R&D has increased 113% (from $224 to $476 million) from 1988 to 1999 and there has been an increase of 36% (from $144 to $196 million) in federal expenditures. While there has been a net decrease of 11% (from $116 to $103 million) in provincial expenditures on R&D between 1988 and 1997, there has been an upward trend in spending since 1994 reflecting the government's commitment to developing an innovation-based economy.

INNSCI recognizes the importance of timely and relevant performance data to measure its performance. It is agreed that lags in data availability make our analysis less meaningful in terms of drawing conclusions about what is happening today. INNSCI is continuing to work with Statistics Canada and other organizations to get more timely data and to look at the possibility of alternative measures for which timely data are readily available.

FIGURE 3

R&D Expenditure in Alberta by Source



Source: Statistics Canada - 88F0006XIB-99008 Estimates of Canadian Research and Development Expenditures (GERD), Canada, 1988 to 1999e, and by Province, 1988 to 1997, pages 40-42.

e - Estimate The values for 1992, 1994 and 1997 are estimates, as a complete survey was not conducted for those years.

Goal 4: Effective commercialization and adoption of science and technology.

Key Performance Measure: Business Innovation[viii]

Discussion (Figure 4):

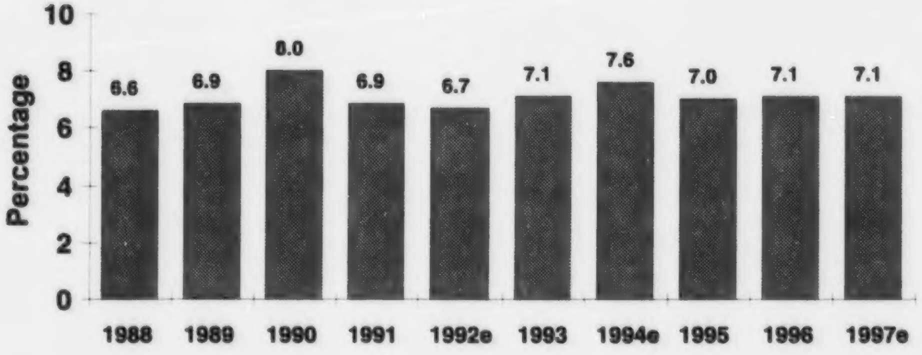
To remain competitive on a long-term basis, Alberta businesses need to cultivate an innovative culture and to invest in R&D activities which can lead to the development of new products and services. Our key measure of business innovation will rely on survey results from Statistics Canada's Survey of Innovation which are not yet available. The Survey of Innovation will examine the link between innovation and the adoption of technology.

Figure 4 is supplied as supplementary information and illustrates that, although Alberta business expenditure on R&D more than doubled from 1988 to 1997 (see Figure 3, previous page), this expenditure as a percentage of Canadian business expenditures on R&D has remained below 8 percent since 1991. This percentage is well below Alberta's share of national gross domestic product (GDP) which was 10.7% in 1991, rising to 12.1% in 1997[ix]. This is likely a reflection of the structure of Alberta's economy. Although our total business expenditure on R&D is increasing, we need to work at increasing the number of businesses for whom R&D is important (businesses for whom technology plays a critical role).

INNSCI recognizes the importance of timely and relevant performance data to measure its performance. It is agreed that lags in data availability make our analysis less meaningful in terms of drawing conclusions about what is happening today. INNSCI is continuing to work with Statistics Canada and other organizations to get more timely data and to look at the possibility of alternative measures for which timely data are readily available.

FIGURE 4

Alberta Business Expenditure on R&D as a percentage of Canadian Business Expenditure on R&D



Source: Statistics Canada - 88F0006XIB-99008 Estimates of Canadian Research and Development Expenditures (GERD), Canada, 1988 to 1999e, and by Province, 1988 to 1997, pages 13-15 and 40-42.

e - Estimate The values for 1992, 1994 and 1997 are estimates, as a complete survey was not conducted for those years.

Goal 4: (Cont'd) Effective commercialization and adoption of science and technology.

Key Performance Measure: Value-Added Industries[*]

Discussion (Figure 5):

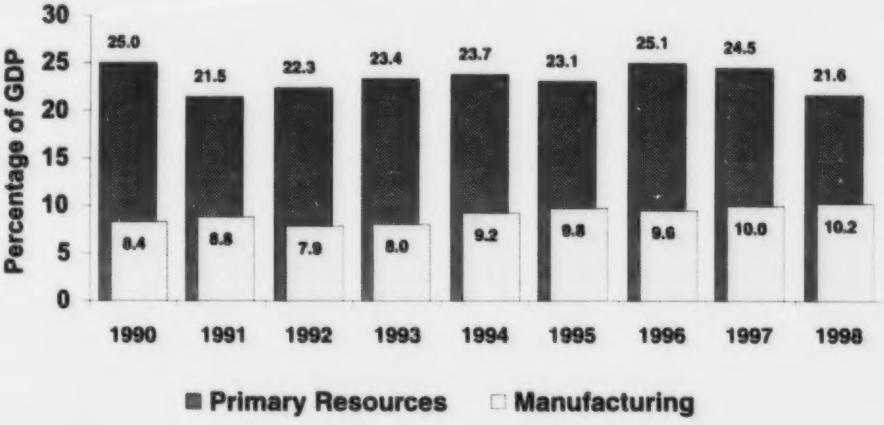
Alberta's economy is still strongly resource-based. Expansion of Alberta's value-added industries will support more stable, long-term economic growth. This measure tracks the percentage of provincial GDP contributed by the manufacturing sector relative to the resource sector. We have used manufacturing as a proxy for value-added industries, but may expand the scope of the measure in the future to include knowledge intensive service industries.

Figure 5 illustrates that since 1996 there has been an increase in GDP derived from manufacturing and a decrease in GDP derived from primary resources.

INNSCI recognizes the importance of timely and relevant performance data to measure its performance. It is agreed that lags in data availability make our analysis less meaningful in terms of drawing conclusions about what is happening today. INNSCI is continuing to work with Statistics Canada and other organizations to get more timely data and to look at the possibility of alternative measures for which timely data are readily available.

FIGURE 5

Manufacturing versus Primary Resources



Source: Alberta Economic Accounts, 1998 - Table 10.

Goal 5: Effective application of science and research for improving stewardship of resources and environment.

Key Performance Measure: Begin collection of baseline data on customer satisfaction and uptake of research.

Discussion:

Work on the collection of data for this measure will begin in 2000-2001.

Goal 6: Excellence in the development, delivery and use of information, and information and communications technology in the delivery of government services.

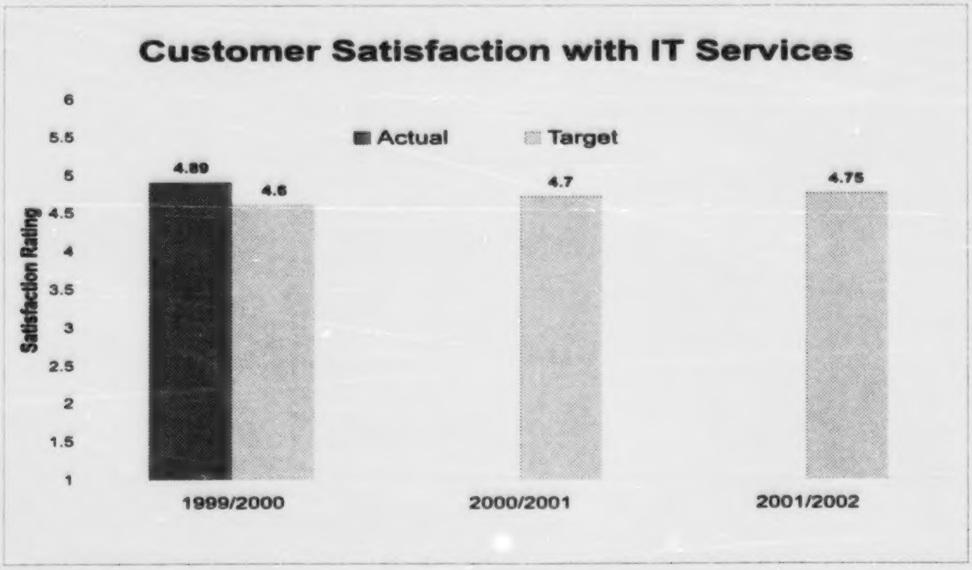
Key Performance Measure: Customer Satisfaction with IT Services

Discussion (Figure 6):

For the purposes of this measure, "customers" are other government departments. Surveys were sent to 38 IT Heads and CIOs across government. Twelve heads of IT and eleven CIOs responded (61%). While the response rate is the highest ever achieved by IMTS, it falls short of our expectations of conducting a census of the target group with close to 100% response. The satisfaction scale used in the surveys is: (1) very dissatisfied; (2) dissatisfied; (3) somewhat dissatisfied; (4) somewhat satisfied; (5) satisfied and (6) very satisfied. The 1999/2000 actual satisfaction rating of 4.89 is calculated by taking an average of the responses to a single survey question on overall satisfaction with IMTS services (including IT enterprise services, value-added services, communication, staff, procedures, voice, data, radio, and customer services).

As Figure 6 demonstrates, we exceeded our target. This result reflects the quality of services provided and the attention focussed on providing strong customer liaison, particularly during a time of major reorganization within government and within our ministry. Results achieved directly support our goal of excellence in the development, delivery and use of information, and information and communications technology in the delivery of government services.

FIGURE 6



Source: Information Management and Technology Services (IMTS), 1999/00 Results of the Fifth Annual Survey of IMTS Services, page 3. Results from previous years are not comparable and were not included in Figure 6 as the survey was redesigned for 1999/2000.

Goal 6: (Cont'd) Excellence in the development, delivery and use of information and information and communications technology in the delivery of government services.

Key Performance Measure:
Infrastructure Reliability

Discussion (Figure 7):

An important, industry-standard measure of the reliability of computer processing services is the overall system availability. This is the percentage of time (based on a 24-hour operation) that INNSCI enterprise computing systems are operational and available to the user, exclusive of planned maintenance. Another measure of overall service reliability is the availability of the government's shared voice and data communications networks which interconnect government offices and facilities across the province (also based on 24-hour operation). The more reliable our infrastructure, the higher the level of service we can provide to Albertans and the more efficiently we can do our jobs.

As Figure 7 illustrates, all availability targets have been exceeded. Despite increased requirements, we have been able to keep our infrastructure availability on target. In 1999/2000, the technologies and capacities of the government shared voice and data communications networks were upgraded to facilitate Ministries' increased networking needs. Also, government data centres were upgraded to increase data storage capacity and improve operational effectiveness.

FIGURE 7
INFRASTRUCTURE AVAILABILITY

Availability (%)		1998/1999	1999/2000	2000/2001	2001/2002
Computer System[xi]					
	Targets	**98.50**	**99.50**	**99.50**	**99.50**
	Actuals	99.62	99.70		
Voice Network[xii]					
	Targets	**99.97**	**99.97**	**99.97**	**99.97**
	Actuals	99.98	99.98[xiii]		
Data Network[xiv]					
	Targets	**99.97**	**99.97**	**99.97**	**99.97**
	Actuals	99.98	99.98		

Source: Computer System Availability - IMTS/Services Delivery and Operations Branch, IMTS Daily Availability Report
Voice and Data network Availability - Telus network management systems, Reports G42E and G42T.

Goal 6: (Cont'd) Excellence in the development, delivery and use of information, and information and communications technology in the delivery of government services.

Key Performance Measure: Develop new measures for efficiency objective, use of data standardization by ministries, use of data dictionary by ministries and customer satisfaction with Best Practices.

Discussion:

Work on the development of related measures has been delayed so they can be developed in conjunction with the Alberta Corporate Service Centre.

Goal 7: Albertans recognize benefits of innovation and science.

Key Performance Measures:

- Collect baseline data on student and parent perceptions of science and technology as a career choice.
- Develop a new measure on public perception of benefits of innovation and science.

Discussion:

Work on the collection of baseline data and development of measures will begin in 2000-2001.

Goal 8: Lead and support the innovative and effective management of human resource capital within the Ministry.

Key Performance Measures: Set baseline measures related to human capital within INNSCI."

Discussion:

1999/2000 Baseline - Percent of employees who know and understand how their work contributes to the achievement of the Innovation and Science Business Plan - 84%.

1999/2000 Baseline - Percent of employees who are satisfied with their employment at Innovation and Science/Government of Alberta - 83%.

1999/2000 Baseline - Percent of employees who agree that Innovation and Science provides the support they need to acquire or develop knowledge and skills in their current job - 83% .

1999/2000 Baseline - Percent of employees who agree that they have the skills and knowledge to meet the anticipated requirements of their jobs over the next 3 years - 76%.

We believe that employee satisfaction is an important indicator of the effectiveness with which we manage our human resource capital. It is critical that employees understand where they fit in, are satisfied with their work and feel they have adequate supports to continue their development. The results reported in our baseline measures will aid us in measuring our success in achieving our goal, particularly during a time of tremendous change and uncertainty.

"Most Innovation and Science employees felt highly impacted by the recent reorganization. Despite this, there were higher than average levels of overall satisfaction and higher than average levels of agreement on most of the core measures of organizational performance, when compared to the results across government. For departments that still need to implement structural changes, Innovation and Science's recent experiences may serve as an example of how this can be done without having a negative impact on employee satisfaction or on their perceptions of organizational performance."

(Source for baseline measures and the direct quotation in the discussion: Government of Alberta, Core Human Resource Measures 1999/2000 Survey of Employees – Innovation and Science. Prepared by Research Innovations Inc.)

Goal 8: (Cont'd) Lead and support the innovative and effective management of human resource capital within the Ministry.

Key Performance Measure: Development of leadership continuity strategies for key positions

Discussion:

The development of leadership continuity strategies for key executive management positions will begin in 2000-2001.

Goal 8: (Cont'd) Lead and support the innovative and effective management of human resource capital within the Ministry.

Key Performance Measure: Number of work experience[xvi], co-op[xvii] and/or internship[xviii] placements.

Discussion:

Baseline measure set: 1 work experience/co-op placement and 3 internship placements from April 1, 1999 to March 31, 2000. [xix]As part of our implementation of the Corporate Human Resource Strategy, we have decided to measure the number of work experience, co-op and internship placements in our ministry. To be innovative in the management of human resource capital requires the injection of fresh ideas. We believe that when we bring work-experience, co-op and internship placements into the Ministry, we benefit tremendously from the association with the institutions and experts involved and from the rich exchange of ideas.

Our baseline measure was derived from a database on non-permanent employees maintained by Human Resources. For co-op, internship, and work experience placements, the database keeps a record of the student's name, work area they are placed in, as well as commencement and termination dates.

Future Challenges

INNSCI recognizes the importance of timely and relevant performance data to measure its performance. With the government reorganization, INNSCI adopted performance measures from a variety of entities. Some of these measures rely on Statistics Canada survey data for which the most recent year is 1997 (see figures 3 and 4). This three-year lag in the data makes our analysis less meaningful in terms of drawing conclusions about what is happening today. The complexity of the survey and the cost involved in gathering the data on R&D expenditures is challenging and leaves us without an alternative source for this information. We are continuing to work with Statistics Canada to get more timely data and to look at the possibility of alternative measures for which timely data are readily available.

In addition, some performance data and measures need to be reevaluated to ensure they adequately show the impact of INNSCI on the economy, communities and environment in Alberta. INNSCI is working with Treasury to develop relevant performance measures on business innovation and value-added industries. INNSCI is also researching the availability of data that may be available from other sources.

Discussion of Financial Performance

Revenue

INNSCI generates revenue by contracting with the private sector and other government departments for the provision of research services, as well as providing data processing services to government departments and agencies on a charge-back basis. Approximately $26.6 million (28 per cent) and $22.2 million (23 per cent) of INNSCI's 1999/2000 revenue was a result of research services and data processing services, respectively. In addition INNSCI receives a significant portion of its revenues ($40.2 million or 42 per cent) as a grant from the Lottery Fund for research and development initiatives.

Comparison of 1999/2000 Actual to 1999/2000 Authorized Budget

In 1999/2000, revenues were higher than budgeted primarily due to the acquisitions of C-FER Inc. and the Petroleum Recovery Institute by ARC.

Comparison of 1999/2000 Actual to 1998/1999 Actual

Revenues in 1999/2000 were higher than in 1998/1999 due to increased contributions from the Lottery Fund for research and development initiatives.

Operating Expense

Significant programs provided by INNSCI in 1999/2000 include:

- $69.0 million (or 35.3 per cent) for science and research,
- $2.0 million (or 1.0 per cent) for research and technology commercialization,
- $60.6 million (or 31.0 per cent) for information technology services, and
- $59.4 million (or 30.4 per cent) for the Alberta Research Council.

Comparison of 1999/2000 Actual to 1999/2000 Authorized Budget

Expenditures were higher than budgeted primarily as a result of the acquisitions of C-FER Inc. and the Petroleum Recovery Institute by ARC.

Comparison of 1999/2000 Actual to 1998/1999 Actual

The increase in actual operating expenses in 1999/2000 compared to 1998/1999 was primarily a result of :

- the acquisitions of C-FER Inc. and the Petroleum Recovery Institute by ARC.
- IT services expenditures to support

growth in the Alberta Government's voice and data networks as well as higher volumes for IT services provided to ministries on a charge-back basis.

Capital Investment

Comparison of 1999/2000 Actual to 1999/2000 Authorized Budget

As outlined in Schedule 3 of the Ministry Financial Statements, capital investment in 1999/2000 was higher than expected primarily due to the accounting treatment of the acquisitions of C-FER Inc. and the Petroleum Recovery Institute by ARC. While these corporations were acquired for nominal consideration, government accounting policy required that the accounting book value of these companies be reflected as a capital investment by the Ministry.

Comparison of 1999/2000 Actual to 1998/1999 Actual

The increase in capital investment in 1999/2000 compared to 1998/1999 was primarily the result of the accounting treatment of the acquisitions of C-FER Inc. and the Petroleum Recovery Institute by ARC. While these corporations were acquired for nominal consideration, government accounting policy required that the accounting book value of these companies be reflected as a capital investment by the Ministry.

Alberta Research Council Inc.

Key Activities/Outcomes for 1999/2000

ARC's mission, "In partnership with global leaders, ARC helps to advance the economy and well being of Alberta by providing technology and innovation to meet current and emerging needs of industry and government," was advanced by four strategies during 1999/2000.

1. **Create a stronger Alberta-based capability in energy R&D through integration of C-FER Technologies, the Petroleum Recovery Institute (PRI), and ARC programs in energy.**

   ARC acquired C-FER Technologies, Edmonton, and Calgary-based PRI which significantly expanded its technology development offerings to the energy sector and added $4.9 million to its consolidated revenues.

   The corporation has since integrated the R&D programs of the PRI in Calgary and its own Heavy Oil and Oil Sands business unit under the name, Petroleum Recovery Institute. As part of the integration, ARC will establish a technology transfer centre with offices and some laboratory space located within ARC's Calgary facility. The centre will focus on field-testing and demonstration of new, lab-proven technologies, with a goal to transfer fully developed, commercial technologies to industry.

2. **Strengthen ARC capability in technology commercialization through partnerships with others.**

   ARC signed a Memorandum of Understanding, establishing a joint venture with the Singapore Productivity and Standards Board. Called TC2, this joint venture provides a vehicle to link Alberta technologies with Asian entrepreneurs interested in commercializing the technology. The agreement also paves the way for transferring technologies from Singapore to lead our activities related to this alliance.

   ARC and the University of Alberta's Industry Liaison Office were among six major agencies that joined forces to form the Alberta Technology Commercialization Network. Other partners in this endeavor include the Alberta Heritage Foundation for Medical Research (AHFMR), the Protein Engineering Network of Centres of Excellence (P.E.N.C.E.), the University of Calgary's University Technologies International, and the Canadian Bacterial Diseases Network (CBDN).

   ARC and PRECARN Associates Inc. signed a new research agreement that will benefit small and medium sized Alberta companies active in the development of intelligent systems technologies. As part of this agreement, these companies will have access to $4 million for R&D projects that ARC and PRECARN Associates Inc. will jointly select, support and manage. The program is designed to encourage technological innovation in intelligent systems leading to commercialization.

3. **Restructure the corporation into public good, contract R&D and technology commercialization enterprises.**

   In fulfilling its mandate to the Province of Alberta, ARC operates three distinct, but interrelated businesses: public good, contract R&D and technology commercialization. During 1999, ARC reorganized into five new divisions to better serve its customers. These include the Technology Commercialization Office, as well as four new research divisions, each directed by a vice-president. The new structure allows the corporation to focus its core capabilities and to align them more closely with customers' needs and the overall direction of Alberta's economy. ARC research divisions are: Life Science Technologies, Forest Technologies, Energy Technologies, and Industrial Processes and Services.

4. Enhance ARC's R&D capability and expand scope of available services by adding new facilities and upgrading existing facilities.

Telehealth is an emerging health care technology that allows physicians to diagnose patients from a distance. Implementation of telehealth technology has been industry-led, resulting in vendors with incompatible systems. In Alberta alone, there are six different vendors providing telehealth systems. Alberta Health and Wellness's we//net seeks an integrated, province-wide telehealth system. To address this challenge, ARC established a Telehealth Interoperability Laboratory in Calgary to develop interoperability guidelines for telehealth systems and test vendors' equipment to ensure guidelines are met. The Canadian Institute for Health Information presented ARC's standards at the recent International Standards Organization (ISO) meeting in Tokyo to be considered for international use.

A $3 million upgrade to ARC's biotechnology manufacturing plant enhances our ability to respond to international demands for the production of animal vaccines and other products. The plant was established 15 years ago and is one of the finest fermentation process development, scale-up and manufacturing facilities in North America. The upgrade enables ARC to meet the stringent requirements of the United States Department of Agriculture (USDA) and will allow us to attract European companies, for example, that want to produce vaccines for sale in North American markets.

Construction of a Western Fluids and Slurry Transportation Centre began during 1999 for completion in June 2000. Once operational, the Centre will enable the heavy oil and oil sands industry to apply technologies that allow more efficient, cost-effective transportation of heavy and waxy crudes, and to adapt technologies to production from offshore reservoirs. The Centre will also link energy-efficient transportation operations with advanced sensing, measurement and control mechanisms, while complementing the expertise available from other western Canadian centres, such as C-FER Technologies in the area of pipeline design, and the Saskatchewan Research Council in slurry pipeline flow.

ARC's new papermaking laboratory is being used to help members of Alberta's Mechanical Pulping Consortium develop new products and improve on existing products. The addition of the laboratory enables ARC's pulp and paper business to model all the processes of a fully operational mechanical pulping mill. By simulating systems and conditions found in Alberta's mills, the group can use their expertise to help industry clients address process and product development obstacles. This allows mills to develop and test new products without disrupting production in their own plants.

Both the Western Fluids and Slurry Transportation Centre, and the papermaking laboratory were funded in part by the Canada/Alberta Western Economic Partnership Agreement, a joint initiative between the federal and Alberta governments encouraging regional economic development in Alberta. Federal funding was provided through the Western Economic Diversification program and various government departments provided Alberta government funding.

CORPORATE BUSINESS GOALS, PERFORMANCE MEASURES AND PROJECTIONS

Business Goals	**1997/98 Actual**	**1998/99 Actual**	**1999/2000 Actual**	**2000/01 Projection**	**2001/02 Projection**	**2002/03 Projection**
Economic Impact ($M)	134	143	150[e]	160	170	180
Job Creation (direct jobs)	782	712	850[e]	900	950	1000
Private Contract R&D Revenue ($M)	15.1[xx]	16.9[xxi]	22.2	26.2	31.6	34
ASRA Investment ($M)	23.5	25.4	27.1	25.1*	24.7*	27.1
Commercialization Revenues ($M)	1.3	1.7	1.7	5.7	6.0	6.8
Ratio - Private Revenue $ /Government Investment $	0.70	0.73	0.88	1.27	1.52	1.51
Mission Effectiveness (Economic Impact/Govt. Inv.)	5.7	5.6	5.5[e]	6.4	6.9	6.6
Customer Satisfaction	95.7%	96.6%	97.0%			98^{+}% by 2005
Employee Satisfaction[xxii]	76.3%	76.5%	77.2%			To be determined

e - Estimates. These figures are currently being calculated; all others for this year are actual numbers.

* - These figures include a loan of $4.382 million to be repaid to ASRA over these two years.

Economic Impact - Impact on client sales and productivity due to ARC involvement, from R&D contract work, ARC out of province contract revenue, medium term R&D and consortia.
Job Creation - New jobs resulting from Economic Impact.
Private Contract R&D Revenue - Stated as Commercial Contract Revenue in ARC 2000 Annual Report.
ASRA Investment - Stated as investment from Province of Alberta in ARC 2000 Annual Report.
Commercialization Revenues - ARC royalties, licensing fees and product sales.

Alberta Heritage Foundation For Medical Research (AHFMR)

Key Activities/Outcomes for 1999/2000

Goal 1:

To Maintain International Standards of Excellence Through an Appropriate and Effective Peer Review System.

- As of March 31, 2000, 172 AHFMR funded researchers and 273 scientists-in-training are supported at the University of Alberta, the University of Calgary, and the University of Lethbridge. A further 38 mental health and health services researchers receive funding through Alberta Health and Wellness's Health Research Fund, administered by AHFMR. All awards to personnel are made according to the highest international criteria for excellence. To fulfil this purpose, more than 450 reviewers from all over the world provide us with their reviews or sit on 12 AHFMR standing review committees for awards competitions.

Goal 2:

To Manage Expenditures to Ensure the Continuance of AHFMR for Future Generations While Avoiding Significant Fluctuations in Annual Spending.

- The AHFMR Endowment was created in 1980 with $300 million. As of March 31, 2000, the AHFMR Endowment has more than tripled.
- The cumulative funding for biomedical and health research since 1980 now totals over $600 million. AHFMR has quarterly meetings with Alberta Treasury, as well as annual meetings between Treasury and AHFMR's Board of Trustees.
- Transfers from the endowment were $39.5 million during 1999/2000.

Goal 3:

To Maintain and Strengthen Basic Research in Order to Discover the Underlying Causes of Disease and Provide a Foundation for Patient and Health Research, the Practice of Medicine and Prevention of Disease.

- For 1999/2000, new awards granted over the next five-year period in various areas of medical research totalled $43 million, an increase of $6 million from the previous year.
- Of this total, $37.5 million was awarded to 61 basic medical researchers. Key basic research accomplishments include: discovery of a brain site that triggers eating, discovery of the heart protective properties of antibiotics, new strides in diabetes research, new findings on the genes for dyslexia, and new information about toxins present in algae food supplements.
- $5.5 million was awarded to 11 health researchers working in the following areas: the assessment of an integrated home care plan for the elderly, motivating change in problem drinkers, depression and stress adaptation in women, assessment of quality of life measures applied to congestive heart failure and diabetes, and the development of an evidence based child health research unit.

Goal 4:

To Expand AHFMR Support of Patient-Based and Health Research in Alberta and Lead New Initiatives in These Areas.

In fall of 1995, AHFMR entered into a five-year contract with Alberta Health and Wellness and the resulting Health Collaboration Agreement expanded the research function of AHFMR in the following ways:

- In 1999/2000, a total of $1.48 million in operating grants were awarded to 20 researchers from the Health Research Fund, now administrated by AHFMR on behalf of Alberta Health and Wellness. A further $700,000 will be received by researchers conducting on-going projects approved in last year's competition. Research projects funded include: determinants of spine and hip disorders, perceptions of health and aging in an insular population, an intervention to improve mental health in children born to adolescents, pre-surgery predictors of incontinence after prostate surgery, assessing the duration of untreated psychosis, and improving pathways to care.
- AHFMR's Health Research Agenda, developed in 1996, continues to guide AHFMR in allocating the most effective and efficient support for health research activity throughout the province.
- AHFMR's Health Technology Assessment (HTA) Unit produced six assessments, including reports on intraocular lens for uncomplicated senile cataract surgery, treatment options for acoustic neuroma, and low level laser therapy for wound healing. In addition, five joint assessment reports, three briefs, and three Technotes, were produced, six papers were published externally in journals, and approximately 11 presentations were made at conferences. The HTA Unit also handled approximately 52 information requests.
- 11 new health researchers received independent investigator awards such as the Population Health Investigator, Scholar or Senior Health Scholar. This brings the total of investigators supported in health research to 21.

Goal 5:

To Maintain Research Education and Training Programs and Encourage Young Albertans to Pursue Research Careers.

- $6 million was awarded in fellowships, clinical fellowships, studentships and summer studentships to 450 researchers in training.
- An AHFMR-led collaboration of Alberta Health, Provincial Mental Health Board, and the 17 Regional Health Authorities (RHAs) resulted in the second community health research training program called Swift Efficient Application of Research in Community Health (SEARCH II). The $1 million, AHFMR-funded program is training 21 participants in tailor-made, intensive modules. The participants are linked in a province-wide computer network and are involved in individual and group projects based on health needs prioritized by their regions. Information from the research projects will help regions make evidence-based budget and program decisions. Project topics include: a study of how "On Call" affects Alberta family physicians, the use of an assessment tool for patients suffering from acute mental illness, and a study of immunization rates compared to vaccine preventable disease outbreaks and hospital admittances.
- The Lionel McLeod scholarship was awarded to University of British Columbia doctoral student in psychology, Ms. Candace Hofmann for studies in Fetal Alcohol Syndrome.
- AHFMR developed the Heritage Youth Research Summer (HYRS) Program intended to give the brightest high school students summer research experience working and learning in Heritage labs at the Universities of Calgary and Alberta. The first HYRS Program begins July 5, 2000.
- AHFMR instituted a $185,000 research recruitment fund which is a matching program to help universities bring top candidates to Alberta for research training opportunities.

Goal 6:

To Encourage Increased Collaboration in Alberta, Canada, and Elsewhere Among Investigators, Research Institutions, Governments, Other Granting Agencies and the Private Sector.

- AHFMR established the AHFMR Challenge Offer, a one-time only, $45 million, matching funding opportunity to assist the province's three research-intensive universities in research-related capital construction.
- AHFMR renewed the Research Travel Grant and Visiting Lecturer Program for $1.52 million.
- AHFMR awarded 25 conference and visiting lecturer grants to university personnel.
- AHFMR awarded 12 travel and visiting lecturer grants to health personnel in RHAs.
- AHFMR senior staff participated in the Governance/Boards/Committees of the Canadian Institutes for Health Research, National Institute for Nutrition, National Cancer Institute of Canada, Institute of Health Economics, Intellectual Infrastructure Partnership Program, Canadian Health Services Research Foundation, and the Canadian Foundation for Innovation.

Goal 7:

To Continue to Promote the Development of Medical Research-Related Economic Activities in Alberta, Including the Commercialization of Innovations.

- The Technology Commercialization (TC) Program provided $920,127 in project and internship funding during the year. Mentoring and access to expertise for applicants were key areas of program development during the year.
- AHFMR participated in and sponsored several TC workshops and forums and contributed to the development of a province-wide TC infrastructure through participation in the Alberta Technology Commercialization Network. We continue to develop in depth case studies of previously funded projects for use in TC workshops and educational forums.
- Investment in TC at an early stage is a long term investment. AHFMR continued to monitor and update six areas of project performance: advancement of technology, increased employment, strengthened infrastructure, attraction of additional funding, generation of revenue and gaining of knowledge and training in TC.
- There are currently eight interns at a variety of organizations learning about a broad spectrum of TC activity including: market analysis, technology transfer, business development, marketing, regulatory affairs and intellectual property identification and protection.

Goal 8:

To Maintain and Improve Communication with the Public, Government, the Research Community, Universities, and Health-Related Institutions

- AHFMR publications included Newsletters, the Annual Report, Health Technology Assessment Reports, and the Triennial report.
- AHFMR and SEARCH web sites were established and maintained.
- AHFMR monthly news bulletins to MLAs were maintained.
- AHFMR media work highlights research accomplishments of funded personnel on a monthly basis.
- AHFMR distributed its Triennial Report, a three-year public report of research activity supported by the AHFMR, to the waiting rooms of all physicians in the province and to those on a 3000-name mailing list.

- AHFMR supported the fourth Alberta Lung Association fundraising gala.
- AHFMR supported two science students as media fellows, one with ITV in Edmonton, the other with CBC radio in Calgary.
- AHFMR instituted the HYRS Program for the summer of 2000 to give 30 high schools students from around the province research experience in the labs of Heritage scientists.
- AHFMR supported the placement of a grade 11 student in the lab of a Heritage researcher at the U of A for the U of A's Women in Science, Engineering, Scholarship and Technology summer training program.
- AHFMR supported the Alberta Science Fair program with prize money for seven regional winners.
- AHFMR participated in the Alberta Teachers' Association Science Council Conference in October, with an AHFMR funded scientist as a guest speaker.
- AHFMR sponsored the "Science and Medicine" category at the 1998 YWCA Women of Distinction Awards.

Goal 9:

To Develop a Mechanism for the Continuing Review and Updating of the AHFMR Strategic Plan and for Setting Priorities.

- AHFMR's Board of Trustees meets quarterly to review planning and directions.
- An International Board of Review (which AHFMR is legislated to organize every six years) met in October of 1998, releasing a Report in December that reviewed AHFMR's activities and recommended directions.

Key Factors Affecting Performance

AHFMR performance is based on its primary function of funding research. The number of proposals submitted and quality of applications is a main determining factor in any of the awards competitions. Since AHFMR works in partnership with the province's universities to recruit and pay salaries of researchers, initiatives on the part of the universities play a large part in recruiting the best and brightest researchers to Alberta. In 1998, an International Board of Review endorsed AHFMR's directions and activities and confirmed AHFMR's seminal role in the province in establishing and continuing to build a first-class research community.

Anticipated Changes or New Directions in 2000/2001

The establishment, over the past 20 years, of a top quality research community and brain trust in Alberta is attracting funding from outside sources at a rate of $2-3 dollars for every AHFMR dollar invested. AHFMR seeks out and initiates new opportunities for matching funding and for collaborative ventures with other provincial and national funding bodies. AHFMR also seeks out opportunities to expand its research portfolio and close the loop between health research results and medical innovations and their application and effectiveness in the health system.

Changes Needed to Measure Performance

Currently, universal mechanisms for measuring comprehensive, overall performance in medical and health research and the impact of that research in socioeconomic terms do not exist. AHFMR carefully tracks the usual scientific metrics of publications, citations and career performance. Other measures, such as case studies are highlighted in AHFMR's publications. AHFMR actively seeks opportunities that would assist in measuring the impact of investment on research.

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MINISTRY OF INNOVATION AND SCIENCE

CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2000

Auditor's Report

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AUDITOR'S REPORT

To the Members of the Legislative Assembly

I have audited the consolidated statement of financial position of the Ministry of Innovation and Science as at March 31, 2000 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Ministry's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Ministry of Innovation and Science is required to follow the corporate government accounting policies and reporting practices as disclosed in Note 3. These accounting policies have been established by Alberta Treasury and are consistent across ministries. With certain exceptions, the basis of accounting is in accordance with generally accepted accounting principles. My reservation of opinion in this auditor's report identifies two exceptions from generally accepted accounting principles that arise from following the accounting policies established by Alberta Treasury.

The following accounting policies are exceptions from generally accepted accounting principles:

Excluded direct costs

Accommodation and certain other administration costs incurred in the operation of the Ministry have not been included in expenses. These costs, estimated at $14,666,000 are recorded by the departments that paid the expenses on behalf of the Ministry.

Capitalization of assets

Capital asset purchases under $15,000 in the Ministry have been expensed in the year acquired and have not been recognized as assets acquired by the Ministry in the accompanying statement of changes in financial position. Consequently, the annual amortization of these assets has not been recognized in the statement of operations and retained earnings. In my view, an amount of approximately $ 1,311,000 representing the net book value of these assets as at March 31, 2000, should be recognized as assets acquired by the Ministry in these financial statements. The effect of this understatement of assets acquired is to overstate expenses by approximately $387,000 for the year ended March 31, 2000.

In my opinion, except for the effect of the matters discussed in the preceding section, these financial statements present fairly, in all material respects, the consolidated financial position of the Ministry as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Original signed by

Peter Valentine, FCA

Auditor General

Edmonton, Alberta

May 24, 2000

Ministry of Innovation and Science
Consolidated Statement of Operations
For the year ended March 31,2000

(In thousands)

	2000 Budget (Schedule 4)	2000 Actual (Schedule 5)	1999 Actual
Revenues			
Lottery Fund	$ 40,250	$ 40,250	$ -
Contribution to IMAGIS	-	-	2,770
Service Revenue (Schedule 1)	22,730	22,153	20,295
Transfers from the Government of Canada	50	1,209	-
Contract Revenue:			
Commercial	19,651	22,244	21,392
Alberta Government Departments and Agencies	6,940	4,380	7,024
Royalties, Licensing Fees and Product Sales	-	1,707	-
Production Revenue and Recoveries	340	1,021	776
Sale of Technology	2,317	-	-
Department of Resource Development	-	-	8,200
Other Revenue	1,288	2,045	8,029
	93,566	95,009	68,486
Expenses (Schedule 2)			
Voted:			
Ministry Support Services	3,900	4,572	4,266
Information Technology Services	59,421	60,611	55,805
Research Operations and Technology Commercialization	23,880	39,376	27,730
Alberta Science, Research and Technology Authority	23,250	16,753	18,503
	110,451	121,312	106,304
Statutory:			
Alberta Research Council Inc.	52,398	59,407	50,314
Alberta Agricultural Research Institute	11,409	7,867	10,268
Alberta Informatics Circle of Research Excellence	10,000	855	-
Alberta Oil Sands Technology and Research Authority	8,040	6,175	14,996
	81,847	74,304	75,578
	192,298	195,616	181,882
Valuation adjustments			
Provision for vacation pay	-	-	452
	-	-	452
Total Expense	192,298	195,616	182,334
Other			
Loss on disposal of capital assets, net	-	583	111
Write downs of capital assets	-	476	1,034
	-	1,059	1,145
	192,298	196,675	183,479
Net operating results	$ (98,732)	$ (101,666)	$ (114,993)

The accompanying notes and schedules are part of these financial statements.

Ministry of Innovation and Science

Consolidated Statement of Changes in Financial Position

For the year ended March 31,2000

	(In thousands) 2000	 1999
Operating transactions		
Net operating results from operations	$ (101,666)	$ (114,993)
Non-cash items included in net operating results:		
Amortization of capital assets	9,892	9,779
Loss on disposal of capital assets, net	583	111
Write downs of capital assets	476	1,034
Valuation adjustments (Note 3(c))	-	219
Revolving Fund adjustment to conform to department accounting policy	-	550
	(90,715)	(103,300)
Decrease (increase) in accounts receivable	(4,250)	163
Decrease (increase) in other current assets	296	(98)
Decrease in accounts payable	(2,795)	(3,301)
Decrease in provision for future project abandonment	(441)	-
Increase in unearned revenue	4,727	3,043
Net cash used by operating transactions	(93,178)	(103,493)
Investing transactions		
Purchases of capital assets (Schedule 3)	(15,522)	(12,142)
Proceeds from disposal of capital assets	21	23
Increase in long term notes payable and promissory note	2,991	-
Increase in restricted cash	(451)	(895)
Capital assets transferred to other ministries	707	1,381
Capital assets transferred from other ministries	(118)	-
		-
Cash used by investing transactions	(12,372)	(11,633)
Financing transactions		
Net transfers from General Revenues	85,418	140,552
Increase (decrease) in advance from General Revenue Fund	-	(24,370)
	85,418	116,182
Net cash (used) provided	(20,132)	1,055
Cash, beginning of year	47,829	46,774
Cash, end of year	27,697	$ 47,829

The accompanying notes and schedules are part of these financial statements.

Ministry of Innovation and Science

Consolidated Statement of Financial Position

As at March 31, 2000

(In thousands)

	2000	1999
Assets		
Cash & cash equivalents (Note 6)	$ 27,697	$ 47,829
Restricted cash (Note 6)	2,331	1,880
Accounts receivable (Note 7)	12,623	8,373
Accountable advances	11	3
Other	-	304
Capital assets (Note 8)	50,255	46,294
	$ 92,917	$ 104,683
Liabilities		
Accounts payable and accrued liabilities	$ 24,120	$ 26,915
Accumulated provision for project abandonment (Note 11)	2,188	2,629
Unearned revenue	6,889	2,162
Promissory note	281	
Current portion of long-term debt	336	-
	33,814	31,706
Long term debt	2,374	-
	36,188	31,706
Net Assets		
Net assets, beginning of year as restated (Note 4)	72,977	23,553
Net operating results	(101,666)	(114,993)
AOSTRA transfer from Energy	-	24,415
PWSS Revolving Fund accounting adjustments	-	(550)
Net transfers from General Revenues	85,418	140,552
Net assets, end of year	56,729	72,977
	$ 92,917	$ 104,683

The accompanying notes and schedules are part of these financial statements.

Ministry of Innovation and Science

Notes to the Consolidated Financial Statements
For the year ended March 31, 2000

NOTE 1 Authority

The Minister responsible for Innovation and Science has been designated as responsible for various Acts by the Government Organization Act and its regulations. To fulfil these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Innovation and Science.

Organization	Authority
Department of Innovation and Science	Government Organization Act
Alberta Science, Research and Technology Authority	Alberta Science, Research and Technology Authority Act
Consolidated Alberta Research Council Inc. including the following wholly owned subsidiaries:	Alberta Science, Research and Technology Authority Act
-C-FER Technologies (1999) Inc. (formerly C-FER Inc.)	
-764330 Alberta Inc. (formerly C-FER Technologies Inc.)	
-Petroleum Recovery Institute	
-PRI Solutions	
Alberta Oil Sands Technology and Research Authority	Oil Sands Technology Act
Alberta Agricultural Research Institute	Alberta Agricultural Research Institute Act
Alberta Informatics Circle of Research Excellence Inc.	Alberta Science, Research and Technology Authority Act

NOTE 2 Purpose

The purpose of the Ministry of Innovation and Science is to enhance the contribution of science, research, information technology and communications technology to the sustainable prosperity and quality of life of all Albertans and to provide information and services in technology through application and applied research.

NOTE 3 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

(a) Reporting Entity

The reporting entity is the Ministry of Innovation & Science (the "Ministry") and includes the operations of the Department of Innovation & Science, Alberta Agricultural Research Institute, Alberta Oil Sands Technology and Research Authority, and the Alberta Science, Research and Technology Authority and it's subsidiaries including the Alberta Research Council Inc. and it's subsidiaries, and the Informatics Centre of Research Excellence Inc. The financial statements for the individual entities provide more detailed information about the operations of each entity.

The Alberta Heritage Foundation for Medical Research (the Foundation) is required to forward a copy of its annual report to the Minister for tabling in the Legislature. However, the consolidated financial statements of the Foundation are not consolidated in these financial statements pursuant to section 4 of the Alberta Heritage Foundation for Medical Research Act. Further details on the financial activities of this entity and its subsidiary, the Alberta Foundation for Health Research, can be found in the Ministry's 2000 Annual Report.

(b) Method of Consolidation

The activities of the entities within the Ministry are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Revenue and expense transactions, investing and financing transactions, and related asset and liability accounts between consolidated entities have been eliminated. Details of the consolidation adjustments are provided in Schedules 4, 5 and 6.

(c) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue. Contract revenue is recognized as costs are incurred. Full provision is made for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

Royalties and licensing fee revenue is recognized when the amount can be reasonably estimated and there is reasonable assurance of collectability of proceeds.

Dedicated Revenue

Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Ministry

NOTE 3 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 1 discloses information on the Ministry's dedicated revenue initiatives.

Expenses

Expenses represent the costs of resources consumed during the year on the Ministry's operations.

Grants are recorded as expenditures when authorized and when all eligibility conditions have been satisfied.

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

Certain expenses, primarily for office space, legal advice, and banking services, incurred on behalf of the Ministry by other ministries are not reflected in the Statement of Operations.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Assets

Financial assets of the Ministry include financial claims, such as advances to and receivables from other organizations, employees and other individuals.

The fair values of marketable securities are estimated to approximate their carrying values.

Assets acquired by right are not included in these statements. Capital assets of the Ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets.

Expenditures for patents owned by the Ministry as a result of research activity are not capitalized due to the uncertain value of benefits that may accrue to the Ministry.

Expenditures on the acquisition or development of other intangible assets including intellectual capital are not capitalized as currently there is no acceptable methodology for measuring the value of future benefits accruing to the Ministry.

Liabilities

Liabilities represent all financial claims payable by the Ministry at fiscal year end.

Under certain joint participation agreements the Ministry will incur certain costs when projects are abandoned.

Net Assets

Net assets represent the difference between the value of assets held by the Ministry and its liabilities.

Net transfers from General Revenues is the difference between all cash receipts and all cash disbursements made.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, advances, accounts payable and accrued liabilities, and unearned revenues are estimated to approximate their book values.

Fair values of loans are not reported: there is no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

NOTE 3 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

(d) Change in Accounting Estimate (In thousands)

Amortization Expense

Effective April 1, 1999, the Ministry changed the useful life of the Integrated Management Alberta Government Information System (IMAGIS) software application from 5 to 10 years. As a result, the amortization expense as at March 31, 2000 is $2,493 as compared to the budgeted amortization expense of $4,800 for fiscal year 1999-2000. Due to this change in accounting estimate the IMAGIS software application will be fully amortized in fiscal year 2007-2008 rather than fiscal year 2002-2003. The change was applied prospectively.

(e) Change in Accounting Policy (In thousands)

Pension Expense

Effective April 1, 1999, the Ministry changed the way it accounts for its participation in multi-employer pension plans to a defined contribution basis. This change in accounting policy has been applied retroactively with restatement of comparative amounts. As a result of this change, opening operating equity as of April 1, 1998, has increased by $1,679. For the year ended March 31, 1999, the pension liability has decreased by $1,204, and the salaries, wages and benefits expense has increased by $475.

NOTE 4 Reorganization

(In thousands)

The Ministry was established as a result of a major reorganization announced by the government on May 25, 1999 and transfers of responsibility announced throughout the year. Comparatives for 1999 have been restated as if the Ministry had always existed.

	1999 Net Assets
Transfer from Science, Research and Information Technology	$ 40,491
Transfer from Public Works, Supply and Services	31,331
Transfer from Agriculture, Food and Rural Development	1,544
Transfer from Advanced Education and Career Development	(36)
Transfer from Economic Development	(353)
Net assets, as restated	$ 72,977

NOTE 5 Changes in Programs and Operations

(a) Alberta Research Council Inc.

Effective April 1, 1999, an Order in Council approved the transfer of the management and control of Petroleum Recovery Institute, and its subsidiary PRI Solutions Inc., to the Alberta Research Council Inc. for consideration of $nil. Petroleum Recovery Institute is a consortium-funded, research and technology development company supporting the needs of the oil industry.

NOTE 5 Changes in Programs and Operations (cont'd)

Effective July 31, 1999, an Order in Council approved the acquisition of all outstanding shares of C-FER Inc., and its subsidiary C-FER Technologies Inc., by Alberta Research Council Inc. for cash consideration of $12.00. C-FER develops engineering innovations for the energy, transportation and manufacturing industry, and specializes in new processes for the offshore oil and gas industry.

Both acquisitions have been accounted for using the purchase method and the results of operations are reported in the Alberta Research Council Inc.'s consolidated financial statements from their respective effective dates.

Net assets acquired at fair value, are summarized as follows:
(In thousands)

	C-FER Inc.	Petroleum Recovery Institute
Assets acquired:		
Net working Capital	$ (1,041)	$ (951)
Capital Assets	4,346	743
Goodwill	-	208
	$ 3,305	$ -
Liabilities assumed:		
Long-term debt	$ 2,930	$ -
Promissory note	375	-
	$ 3,305	$ -

(b) Alberta Informatics Circle of Research Excellence Inc.
(In thousands)

The Alberta Informatics Circle of Research Excellence Inc. (iCORE) commenced operations on July 1, 1999 and was established on September 23, 1999 as a not-for-profit corporation in accordance with the Alberta Business Corporations Act, Chapter B - 15, Revised Statutes of Alberta 1980, as amended. Order-in-Council 105/2000 authorized the acquisition of iCORE by the Alberta Science, Research and Technology Authority.

The mandate of iCORE is to attract and grow a critical mass of outstanding researchers in the fields of computer science, electrical and computer engineering, physics, mathematics and other information and communications technology related disciplines. iCORE invests in the highest calibre research scientists and leaders who work on fundamental and applied problems in information technology. It aims to fund iCORE Chairs at Alberta universities, around which world-class research teams will be developed.

On October 26, 1999, the Minister of Innovation & Science announced a three-year $30,000 commitment to iCORE. Annual funding of $10,000 was committed from existing science and research funding in the Alberta Science, Research and Technology Authority.

NOTE 6 Cash and Cash Equivalents

(a) Cash (In thousands)

Cash consists primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term fixed income securities with a maximum term to maturity of five years. The securities are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Due to the short-term nature of the CCITF investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates.

The Ministry operates within the General Revenue Fund (the Fund). The Fund is administered by the Provincial Treasurer. All cash receipts are deposited into the Fund and all cash disbursements are paid from the Fund.

Interest earned by the Ministry on the cash balances of Alberta Oil Sands Technology and Research Authority and Alberta Research Council Inc. CCITF accounts is credited to general revenues of the Province of Alberta and is therefore not reflected in these statements.

Interest earned by the Ministry on the cash balances of the Alberta Agricultural Research Institute, the Alberta Science, Research and Technology Authority and the Informatics Centre of Research Excellence Inc.'s CCITF accounts, in the amount of $378, $145 and $10 respectively, is credited to each entity's CCITF account, and are reflected in these financial statements.

(b) Restricted Cash

Restricted cash represents unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

(c) Cash Equivalents

At March 31, cash equivalents consist of:

During fiscal 2000, 17,392 Class A voting, common shares of a public company, were sold for $30,790. The shares were received in 1998 as consideration for contract work provided by the Ministry to the company. These shares were originally recorded at $100,000 which represented the quoted market value of the shares at the time the contract work was completed. The shares were revalued at March 31, 1999 to $26,088 in order to reflect the realizable value.

		2000			1999	
	Expiry Date	Number	Exercise Price per Share	March 31 Market Value per Share	Number	March 31 Market Value per Share
Option	May 5, 2001	211,400	$ 1.00	$ 7.30	211,400	$ 2.32
Option	Mar 31, 2003	55,000	2.00	8.30	75,000	4.65
Warrants	Jun 30, 2002	200,000	2.00	0.60	200,000	0.40

	2000		1999	
	Number	March 31 Market Value per Share	Number	March 31 Market Value per Share
Common shares (public company)	430,250	$ 0.60	-	$ -
Common shares (non-public company)	705,084	N/A	240,776	N/A
Common shares (non-public company)	400,000	N/A	400,000	N/A
Class A voting common shares	-	-	17,392	1.50

NOTE 6 Cash and Cash Equivalents (cont'd)

During the year, 20,000 options were sold for $16.13 per option. The market value of this public company's common shares at March 31, 2000 was $8.30 (1999 - $4.65).

During the year, $80,000 was invested in a private company in exchange for a 5.0% equity position. The market value of the investment at March 31, 2000 is not reasonably determinable.

The options, warrants and common shares that were originally acquired as part of the consideration for granting of various licenses, are recorded at nominal values, except as otherwise noted.

Market risks exist with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

NOTE 7 Accounts Receivable (In thousands)

	2000			1999
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 9,247	$ 296	$ 8,951	$ 5,429
Alberta government departments and agencies	3,672	-	3,672	2,944
	$ 12,919	$ 296	$ 12,623	$ 8,373

Accounts receivable are unsecured and non-interest bearing.

NOTE 8 Capital Assets

(In thousands)

		2000			1999
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	Indefinite	$ 566	$ -	$ 566	$ -
Building	30 yrs	2,106	107	1,999	-
Equipment [1]	3 - 25 yrs	54,838	34,736	20,102	16,380
Computer Hardware/Software	3 - 5 years	40,932	34,971	5,961	6,922
IMAGIS Software [2]	10 years	23,322	5,841	17,481	19,146
Leasehold improvements	25 years	6,478	2,332	4,146	3,846
		$ 128,242	$ 77,987	$ 50,255	$ 46,294

[1] Equipment also includes furniture and fixtures.

[2] Integrated Management Alberta Government Information System (IMAGIS) software includes all development costs incurred by the Ministry in the implementation of the government-wide system. It does not include $920 (1999 - $3,966) contributed by other ministries for staff resources seconded to the project. IMAGIS software is comprised of various modules. The cost of each module is amortized over a 10 year useful life. As at March 31, 2000, the Accounts Payable, General Ledger, Budgets, Accounts Receivable, Billing, Human Resources and Purchasing modules are in service.

NOTE 9 Loans/Notes Payable (In thousands)

	2000
7.32% Bank of Montreal mortgage, payable in monthly instalments of $40,887 including interest, due October 2001.	$ 2,580
Bank of Montreal term loan, at prime, payable in monthly instalments of $4,161 plus interest, due October 2002.	130
	2,710
Less current portion	336
	$ 2,374

NOTE 9 Loans/Notes Payable (cont'd)
(In thousands)

A demand debenture with a fixed charge over land, building and equipment, a floating charge over other assets, an assignment of insurance proceeds and a general security agreement registered under the Personal Property Security Act creating a floating charge over all property and assets, both present and future have been pledged as collateral for the mortgage and term loan with the Bank of Montreal.

The estimated repayments during the next five years and in total are as follows:

Year	Repayments
2001	$ 365
2002	389
2003	395
2004	392
2005	422
Thereafter	747
	$ 2,710

NOTE 10 COMMITMENTS
(In thousands)

(a) General Commitments

The Ministry has commitments as at March 31, 2000 totalling $96,243 (1999 - $34,706) for approved projects.

Year	Committed
2001	$ 54,106
2002	25,390
2003	16,747
Thereafter	-
	$ 96,243

(b) Leases

The Ministry leases certain equipment under operating leases that expire on various dates to 2004. The aggregate amounts payable for the unexpired terms of these leases are as follows:

Year	Committed
2001	$ 110
2002	83
2003	68
2004	16
Thereafter	-
	$ 277

NOTE 11 Provision for Future Project Abandonment (In thousands)

Under joint participation agreements, the Ministry will incur certain costs when wells and experimental projects are abandoned. Management's estimate of future abandonment costs is $2,188 (1999 - $2,689).

NOTE 12 Contingencies (In thousands)

During fiscal 1999, the Ministry was made aware of a $4,079 claim naming the Alberta Research Council Inc as the defendant. The claim relates to contamination produced from certain oil wells and arises out of a joint venture agreement to develop drilling fluid that would act as fracturing agent. A previous claim naming the Alberta Research Council Inc. as one of the defendants related to the same event was settled in the previous year. This matter has been referred to the insurers and the likelihood of loss or the amount of loss to the Alberta Research Council Inc. is not determinable at this time however, management has stated that any losses would be fully covered by insurance. Any settlement that may occur would be accounted for as a charge against current year's earnings at the time of settlement.

During fiscal 2000, a statement of claim, relating to intellectual property ownership was filed by a former employee. Management feels that the claim is without merit, however, the likelihood of loss or the amount of the loss, if any, is not determinable at this time. Any settlement that may occur would be accounted for as a charge against current year's earnings at the time of settlement.

NOTE 13 Pensions (In thousands)

The Ministry participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The ministry also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers established by the government effective July 1, 1999.The expense for these pension plans is equivalent to the annual contributions of $2,737 for the year ending March 31, 2000 (1999 - $2,162).

At December 31, 1999, the Management Employees Pension Plan reported a surplus of $46,019 (1998 - $4,355) and the Public Service Pension Plan reported a surplus of $517,020 (1998 - $406,445). At December 31, 1999, the Supplementary Retirement Plan for Public Service Managers had a surplus of $33.

NOTE 14 Comparative Figures

Certain 1999 figures have been reclassified to conform to the 2000 presentation.

NOTE 15 Approval of Financial Statements

The financial statements were approved by the Deputy Minister of Innovation and Science and the Senior Financial Officer for the Ministry of Innovation and Science.

Ministry of Innovation and Science

Consolidated Schedule to Financial Statements
Dedicated Revenue Initiative
As at March 31, 2000

Schedule 1

(In thousands)

	2000 Authorized Budget	2000 Actual	1999 Actual
Government Information and Communication Systems :			
Dedicated revenue	$ (22,730)	$ (22,153)	$ (20,295)
Expense	22,730	23,215	22568
Net expense	$	$ 1,062	$ 2,273

Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. As actual dedicated revenues were less than budget, total voted expenses were reduced by an amount sufficient to cover the deficiency in dedicated revenues. Conversely, if actual dedicated revenues had exceeded budget, the Department may have, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program.

The above dedicated revenue and expense are included in the Statement of Operations.

The Department of Innovation and Science receives revenues from ministries to recover the cost of providing system applications and services, which includes:

- shared computer processing services, data backup recovery and storage,
- Internet and electronic mail services, electronic commerce, technical consulting and support services, and print services, and
- cross government services for finance and human resource applications.

Ministry of Innovation and Science

Consolidated Schedule to Financial Statements
Expenses Detailed by Object
As at March 31, 2000

Schedule 2

(In thousands)

	2000 Budget a	2000 Actual	1999 Actual
Salaries, wages and employee benefits	$ 55,798	$ 58,102	$ 47,154
Supplies and services	55,645	64,598	57,644
Contribution to IMAGIS	-	-	2,769
Grants	67,955	62,882	64,938
Financial transactions and other	47	142	126
Amortization of capital assets	12,853	9,892	9,703
Total expenses	$ 192,298	$ 195,616	$ 182,334

(a) Effective April 1, 1999, the Ministry of Innovation and Science was established as a result of a major reorganization and other transfers of responsibility announced by the government during the year. This budget amount has restated the 1999-2000 Government and Lottery Fund Estimates that were approved on April 29th, 1999 for both the major reorganization and transfers of responsibility authorized during the year. The breakdown of expenses by object is based on management's best estimate.

Ministry of Innovation and Science

Consolidated Schedule to Financial Statements
Purchases of Capital Assets by Program
As at March 31, 2000

Schedule 3

	2000 Estimates	Voted Supplementary	2000 Authorized budget	2000 Actual	1999 Actual
Ministry Support Services	$ -	$ -	$ -	$ -	$ -
Government Information and Communications Systems	8,295	-	8,295	4,017	9,716
Alberta Agricultural Research Institute	100	-	100		
Alberta Research Council Inc.	2,520	-	2,520	11,505	2,426
	$ 10,915	$ -	$ 10,915	$ 15,522	$ 12,142

Ministry of Innovation and Science

Consolidated Schedule to Financial Statements
Operating Budget
For the year ended March 31, 2000

Schedule 4

(in thousands)

	Department	Alberta Science, Research and Technology Authority	Alberta Agricultural Research Institute	Alberta Oil Sands Technology and Research Authority	Alberta Research Council Inc.	Alberta Informatics Circle of Research Excellence Inc.	Consolidated Adjustments (Schedule 6)	Consolidated Ministry
Revenues:								
Lottery Fund	$ 32,250	$ -	$ 8,000	$ -	$ -	$ -	$ -	$ 40,250
Contribution to IMAGIS	-	-	-	-	-	-	-	-
Service Revenue (Schedule 1)	22,730	-	-	-	-	-	-	22,730
Transfers from the Government of Canada	-	-	50	-	-	-	-	50
Contract Revenue:		-						-
Commercial	-	-	-	-	19,651	-	-	19,651
Alberta Government Departments and Agencies	-	-	690	-	6,250	-	-	6,940
Royalties, Licensing Fees and Product Sales	-	-	-	-	-	-		-
Production Revenue and Recoveries	-	-	-	340	-	-	-	340
Sale of Technology	-	-	-	2,317	-	-	-	2,317
Contributions from:		-						
Department of Innovation & Science	-	60,330	1,077	-	-	-	(61,407)	-
Alberta Science, Research and Technology Authority	-	-	-	-	27,080	10,000	(37,080)	-
Alberta Oil Sands Technology and Research Authority	-	-	-	-	1,750	-	(1,750)	-
Department of Resource Development	-	-	-	-	-	-	-	-
Other Revenue	-	-	1,288	-	-	-	-	1,288
	54,980	60,330	11,105	2,657	54,731	10,000	(100,237)	93,566
Expenses:								
Ministry Support Services	3,900	-	-	-	-	-	-	3,900
Government Information and Communication Systems	59,421	-	-	-	-	-	-	59,421
Research Operations and Technology Commercialization	85,287	-	-	-	-	-	(61,407)	23,880
Alberta Science Research and Technology Authority	-	60,330	-	-	-	-	(37,080)	23,250
Alberta Research Council Inc.	-	-	-	-	54,148	-	(1,750)	52,398
Alberta Agricultural Research Institute	-	-	11,409	-	-	-	-	11,409
Alberta Informatics Circle of Research Excellence Inc.	-	-	-	-	-	10,000	-	10,000
Alberta Oil Sands Technology and Research Authority	-	-	-	8,040	-	-	-	8,040
	148,608	60,330	11,409	8,040	54,148	10,000	(100,237)	192,298
Valuation adjustments:								
Provision for vacation pay	-	-	-	-	-	-	-	-
Other:								
Loss on disposal of capital assets, net	-	-	-	-	-	-	-	-
Write downs of capital assets	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	148,608	60,330	11,409	8,040	54,148	10,000	(100,237)	192,298
Net operating results	$ (93,628)	$ -	$ (304)	$ (5,383)	$ 583	$ -	$ -	$ (98,732)

Ministry of Innovation and Science

Consolidated Schedule to Financial Statements
Operating Actuals
As at March 31, 2000

Schedule 5

(In thousands)

	Department of Innovation & Science	Alberta Science, Research and Technology Authority	Alberta Agricultural Research Institute	Alberta Oil Sands Technology and Research Authority	Alberta Research Council Inc.	Alberta Informatics Circle of Research Excellence Inc.	Consolidated Adjustments (Schedule 6)	Consolidated Ministry
Revenues:								
Lottery Fund	$ 32,250	$ -	$ 8,000	$ -	$ -	$ -	$ -	$ 40,250
Contribution to IMAGIS	-	-	-	-	-	-	-	-
Service Revenue (Schedule 1)	22,210	-	-	-	-	-	(57)	22,153
Transfers from the Government of Canada	150	-	1,059	-	-	-	-	1,209
Contract Revenue:								
Commercial	-	-	-	-	22,244	-	-	22,244
Alberta Government Departments and Agencies	-	-	1,752	-	34,916	846	(33,135)	4,380
Royalties, Licensing Fees and Product Sales	-	-	-	-	1,707	-	-	1,707
Production Revenue and Recoveries	-	-	-	1,021	-	-	-	1,021
Sale of Technology	-	-	-	-	-	-	-	-
Contributions from:								
Department of Innovation & Science	-	45,395	-	-	-	-	(45,395)	0
Department of Resource Development	-	-	-	-	-	-	-	-
Other Revenue	182	146	1,686	22	-	9	-	2,045
	54,792	45,541	12,497	1,043	58,868	855	(78,586)	95,009
Expenses:								
Ministry Support Services	4,572	-	-	-	-	-	-	4,572
Government Information and Communication Systems	60,668	-	-	-	-	-	(57)	60,611
Research Operations and Technology Commercialization	85,421	-	-	-	-	-	(46,045)	39,376
Alberta Science Research and Technology Authority	-	45,541	-	-	-	-	(28,787)	16,753
Alberta Informatics Circle of Research Excellence	-	-	-	-	-	855	-	855
Alberta Research Council Inc.	-	-	-	-	58,742	-	665	59,407
Alberta Agriculture Research Institute	-	-	11,544	-	-	-	(3,678)	7,867
Alberta Oil Sands Technology and Research Authority	-	-	-	7,288	-	-	(1,113)	6,175
	150,661	45,541	11,544	7,288	58,742	855	(79,014)	195,616
Valuation adjustments:								
Provision for vacation pay	-	-	-	-	-	-	-	-
Other:								
Loss on disposal of capital assets, net	583	-	-	-	-	-	-	583
Write downs of capital assets	476	-	-	-	-	-	-	476
	1,059	-	-	-	-	-	-	1,059
	151,720	45,541	11,544	7,288	58,742	855	(79,014)	196,675
Net operating results	$ (96,928)	$ -	$ 953	$ (6,245)	$ 127	$ -	$ 428	$ (101,666)

Ministry of Innovation and Science

Consolidated Schedule to Financial Statements

Schedule 6

Intra-Ministry Transactions
As at March 31, 2000

	(In thousands)	
	2000 Budget	2000 Actual
Revenues:		
Department grant to Alberta Science, Research and Technology Authority (ASRA)	$ 60,330	$ 45,395
Department grant to Alberta Research Council Inc. (ARC)	-	478
Department grant to Alberta Agricultural Research Institute (AARI)	1,077	1,077
ASRA grant provided to ARC	27,080	27,081
Alberta Informatics Circle of Research Excellence (iCORE) grant from ASRA	10,000	846
ARC grants from Alberta Oil Sands Technology Research Authority (AOSTRA)	1,750	1,072
ARC grants provided from AARI	-	2,470
ARC services provided to ASRA	-	110
Department services provided to ASRA	-	2
Department services provided to ARC	-	55
Total intra-ministry transactions	$ 100,237	$ 78,586
Expenses:		
Department grant provided to ASRA	$ 60,330	$ 45,395
Department grant provided to ARC	-	650
Department grant provided to AARI	1,077	1,077
ASRA grant provided to ARC	27,080	27,831
ASRA grant provided to iCORE	10,000	846
AOSTRA grant provided to ARC	1,750	1,113
AARI grant provided to ARC	-	2,600
ARC services provided to ASRA	-	110
Department services provided to ASRA	-	2
Department services provided to ARC	-	55
Total intra-ministry transactions	100,237	79,679
Elimination of Prepaid Expenditures in Alberta Research Council inc.	-	(665)
Total expense consolidation adjustments	$ 100,237	$ 79,014

Difference in the revenue and expense adjustments is in unearned revenue.

DEPARTMENT OF INNOVATION AND SCIENCE

FINANCIAL STATEMENTS

MARCH 31, 2000

Auditor's Report

Statement of Operations

Statement of Changes in Financial Position

Statement of Financial Position

Notes to the Financial Statements

Schedule of Revenues

Schedule of Dedicated Revenue Initiative

Schedule of Expenses Detailed by Object

Schedule of Budget

Schedule of Comparison of Expenses by Element to Authorized Budget

Schedule of Salary and Benefits Disclosure

Schedule of Related Party Transactions

AUDITOR'S REPORT

To the Minister of Innovation and Science

I have audited the statement of financial position of the Department of Innovation and Science as at March 31, 2000 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Department's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Department of Innovation and Science is required to follow the corporate government accounting policies and reporting practices as disclosed in Note 3. These accounting policies have been established by Alberta Treasury and are consistent across ministries. With certain exceptions, the basis of accounting is in accordance with generally accepted accounting principles. My reservation of opinion in this auditor's report identifies two exceptions from generally accepted accounting principles that arise from following the accounting policies established by Alberta Treasury.

The following accounting policies are exceptions from generally accepted accounting principles:

Excluded Direct Costs

Accommodation and certain other administration costs incurred in the operation of the Department have not been included in expenses. These costs, estimated at $2,491,000 are recorded by the departments that paid the expenses on behalf of the Department.

Capitalization of assets

Capital asset purchases under $15,000 in the Department have been expensed in the year acquired and have not been recognized as assets acquired by the Department in the accompanying statement of changes in financial position. Consequently, the annual amortization of these assets has not been recognized in the statement of operations and retained earnings. In my view, an amount of approximately $ 1,311,000 representing the net book value of these assets as at March 31, 2000 should be recognized as assets acquired by the Department in these financial statements. The effect of this understatement of assets acquired is to overstate expenses by approximately $387,000 for the year ended March 31, 2000.

In my opinion, except for the effect of the matters discussed in the preceding section, these financial statements present fairly, in all material respects, the financial position of the Department as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Original signed by
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 24, 2000

DEPARTMENT OF INNOVATION AND SCIENCE
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2000

(In thousands)

	2000 Budget (Schedule 4)	2000 Actual	1999 Actual
Revenues (Schedules 1, 4, and 5)			
Lottery Revenue	$ 32,250	$ 32,250	$ -
Service Revenue	22,730	22,210	20,295
Contribution to IMAG IS	-	-	2,769
Other Revenue	-	332	-
	54,980	54,792	23,064
Expenses (Schedules 3 and 5)			
Ministry Support Services	3,900	4,572	4,318
Government Information and Communication Systems	59,421	60,668	55,804
Research Operations and Technology Commercialization	85,287	85,421	71,586
	148,608	150,661	131,708
Valuation adjustments			
Provision for vacation pay	-	-	403
Total expenses	148,608	150,661	132,111
Other			
Loss on disposal of capital assets, net	-	583	111
Write down of capital assets	-	476	1,034
	-	1,059	1,145
Net operating results	$ (93,628)	$ (96,928)	$ (110,192)

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 2000

	(In thousands)	
	2000	1999
Operating transactions		
Net operating results from operations	(96,928)	$ (110,192)
Non-cash items included in net operating results:		
Amortization of capital assets	6,934	7,170
Loss on disposal of capital assets, net	583	111
Write down of capital assets	476	1,034
Valuation adjustments (Note 3(b))	-	169
Revolving Fund adjustment to conform to department accounting policy	-	550
	(88,935)	(101,157)
Decrease (increase) in accounts receivable (Note 5)	(287)	179
Increase in other current assets	(11)	-
Decrease in prepaid expenses	-	853
Increase (decrease) in accounts payable	3,558	(6,410)
Net cash used by operating transactions	(85,675)	(106,535)
Investing transactions		
Purchases of capital assets	(4,018)	(9,716)
Capital assets transferred to other ministries	707	1,377
Capital assets transferred from other ministries	(118)	-
Cash used by investing transactions	(3,429)	(8,339)
Financing transactions		
Net transfers from General Revenues (Note 3(a))	89,087	139,266
Increase (decrease) in advance from General Revenue Fund	-	(24,370)
	89,087	114,896
Net cash (used) provided	(17)	21
Cash, beginning of year	21	-
Cash, end of year	4	$ 21

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2000

	(In thousands)	
	2000	1999
Assets		
Cash	$ 4	$ 21
Accounts receivable (Note 5)	382	95
Accountable advances	11	-
Capital assets (Note 6)	31,004	35,568
	$ 31,401	$ 35,684
Liabilities		
Accounts payable and accrued liabilities	$ 8,530	$ 4,972
Net Assets		
Net assets, beginning of year as restated (Note 4)	30,712	(22,227)
Net operating results	(96,928)	(110,192)
AOSTRA transfer from Energy	-	24,415
PWSS Revolving Fund accounting adjustments	-	(550)
Net Transfers from General Revenues	89,087	139,266
Net assets, end of year	22,871	30,712
	$ 31,401	$ 35,684

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF INNOVATION AND SCIENCE

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2000

Note 1 Authority

The Department of Innovation and Science operates under the authority of the Government Organization Act, Statutes of Alberta.

Note 2 Purpose

The purpose of the Department of Innovation & Science (the Department) is to enhance the contribution of science, research and information and communications technology to the sustainable prosperity and quality of life of all Albertans. The Department of Innovation and Science consolidates all government technology, research and science activities into one unique department within the Government of Alberta.

Note 3 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all departments. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

(a) Reporting entity

The reporting entity is the Department of Innovation and Science, which is part of the Ministry of Innovation and Science and for which the Minister of Innovation and Science is accountable. Other entities reporting to the Minister are the Alberta Agricultural Research Institute, the Alberta Oil Sands Technology and Research Authority and the Alberta Science, Research and Technology Authority and it's subsidiaries including the Alberta Research Council Inc and it's subsidiaries and the Informatics Circle of Research Excellence Inc. The activities of these organizations are not included in these financial statements.

Since some financial transactions of the Ministry are reported outside the departmental financial statements, the Ministry financial statements provide a more comprehensive accounting of the financial position and results of the Ministry's operations. The Ministry Annual Report provides a more complete picture of the responsibilities for which the Minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Provincial Treasurer. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net transfers from General Revenues is the difference between all cash receipts and all cash disbursements made.

Note 3 Summary of Significant Accounting Policies and Reporting Practices (con't)

(b) Basis of financial reporting

Revenues

All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue.

Dedicated Revenue

Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. If actual dedicated revenues are less than budget and total voted expenses are not reduced by an amount sufficient to cover the deficiency in dedicated revenues, the following year's voted expenses are encumbered. If actual dedicated revenues exceed budget, the Department may, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program. Schedule 2 discloses information on the Department's dedicated revenue initiative.

Expenses

Expenses represent the costs of resources consumed during the year on the Department's operations. Expenses include amortization of capital assets.

Certain expenses, primarily for office space, legal advice, and banking services, incurred on behalf of the Department by other Ministries are not reflected in the Statement of Operations. Schedule 7 discloses information on these related party transactions.

Grants are recorded as expenses when authorized and when all eligibility criteria have been satisfied.

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Assets

Financial assets of the Department include financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included in these statements. Capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets.The threshold for capitalizing new systems development is $100,000 and the threshold for all other capital assets is $15,000.

Liabilities

Liabilities represent all financial claims payable by the Department at fiscal year end.

Net Assets

Net assets represents the difference between the value of assets held by the Department and its liabilities.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Note 3 Summary of Significant Accounting Policies and Reporting Practices (con't)

The fair values of accounts receivable, advances, accounts payable and accrued liabilities, and unearned revenues are estimated to approximate their book values.

(c) Change in Accounting Estimate

(In thousands)

Amortization Expense

Effective April 1, 1999, the Department changed the useful life of the Integrated Management Alberta Government Information System (IMAGIS) software application from 5 to 10 years. As a result, the amortization expense as at March 31, 2000 is $2,493 as compared to the budgeted amortization expense of $4,800 for fiscal year 1999-2000. Due to this change in accounting estimate the IMAGIS software application will be fully amortized in fiscal year 2007-2008 rather than fiscal year 2002-2003. The change was applied prospectively.

Note 4 Reorganization

(In thousands)

The Department was established as a result of a major reorganization announced by the government on May 25, 1999 and transfers of responsibility announced throughout the year. Comparatives for 1999 have been restated as if the Department had always existed.

	March 31, 1999 Net Assets
Transfer from Alberta Infrastrcture	$31,335
Transfer from Alberta Learning	(36)
Transfer from Alberta Science Research and Information Technology	(234)
Transfer from Alberta Economic Development	(353)
Net assets, as restated	$30,712

Note 5 Accounts Receivable

(In thousands)

	2000			1999
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 5	$ -	$ 5	$ -
Other governments	153	-	153	-
Alberta government departments and agencies	224	-	224	95
	$ 382	$ -	$ 382	$ 95

Accounts receivable are unsecured and non-interest bearing.

Note 6 Capital Assets

(In thousands)

		2000			1999
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Equipment [1]	5 - 10 yrs	$ 16,448	$ 8,236	$ 8,212	$ 9,867
Computer Hardware/Software	3 - 5 yrs	36,661	31,350	5,311	6,555
IMAGIS Software [2]	10 yrs	23,322	5,841	17,481	19,146
		$ 76,431	$ 45,427	$ 31,004	$ 35,568

[1] Equipment also includes furniture and fixtures.

[2] Integrated Management Alberta Government Information System (IMAGIS) software includes all development costs incurred by the Ministry in the implementation of the government-wide system. It does not include $920 (1999 - $3,966) contributed by other ministries for staff resources seconded to the project in 1999-2000. IMAGIS software is comprised of various modules. The cost of each module is amortized over a 10 year useful life. As at March 31, 2000, the Accounts Payable, General Ledger, Budgets, Accounts Receivable, Billing, Human Resources and Purchasing modules are in service.

Note 7 Commitments

(In thousands)

The Department has commitments as at March 31, 2000 totalling $39,134 (1999 - $18,803) for approved projects.

Year		Committed
2001	$	25,239
2002		9,995
2003		3,900
Thereafter		-
	$	39,134

Note 8 Pensions

(In thousands)

The authority participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The authority also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers established by the government effective July 1, 1999. The expense for these pension plans is equivalent to the annual contributions of $1,156 for the year ended March 31, 2000 (1999-$734).

At December 31, 1999, the Management Employees Pension Plan reported a surplus of $46,019 (1998 - $4,355) and the Public Service Pension Plan reported a surplus of $517,020 (1998 - $406,445). At December 31, 1999, the Supplementary Retirement Plan for Public Service Managers had a surplus of $33.

Note 9 Comparative Figures

Certain 1999 figures have been reclassified to conform to the 2000 presentation.

Note 10 Approval Of Financial Statements

The financial statements were approved by the Deputy Minister of Innovation & Science and the Senior Financial Officer for the Ministry of Innovation and Science.

DEPARTMENT OF INNOVATION AND SCIENCE
SCHEDULE TO FINANCIAL STATEMENTS
REVENUES
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 1

(In thousands)

	2000 Budget	2000 Actual	1999 Actual
Lottery Fund	$ 32,250	$ 32,250	$ -
Service Revenues	22,730	22,210	20,295
Contribution to IMAG IS	-	-	2,769
Government of Canada	-	150	-
Other Revenues	-	182	-
Total Revenues	$ 54,980	$ 54,792	$ 23,064

DEPARTMENT OF INNOVATION AND SCIENCE
DEDICATED REVENUE INITIATIVE
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 2

(In thousands)

	2000 Authorized Budget	2000 Actual	1999 Actual
Government Information and Communication Systems :			
Dedicated revenue	$ (22,730)	$ (22,210)	$ (20,295)
Expense	22,730	23,272	22,568
Net expense	$ -	$ 1,062	$ 2,273

Dedicated revenue initiatives provide a basis for authorizing spending. Dedicated revenues must be shown as credits or recoveries in the details of the Government Estimates for a supply vote. As actual dedicated revenues were less than budget, total voted expenses were reduced by an amount sufficient to cover the deficiency in dedicated revenues. Conversely, if actual dedicated revenues had exceeded budget, the Department may have, with the approval of the Treasury Board, use the excess revenue to fund additional expenses on the program.

The above dedicated revenue and expense are included in the Statement of Operations.

The Department of Innovation and Science receives revenues from ministries to recover the cost of providing system applications and services, which includes:

- shared computer processing services, data backup recovery and storage,
- Internet and electronic mail services, electronic commerce, technical consulting and support services, and print services, and
- cross government services for finance and human resource applications.

DEPARTMENT OF INNOVATION AND SCIENCE
EXPENSES DETAILED BY OBJECT
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 3

(In thousands)

	2000 Budget (a)	2000 Actual	1999 Actual
Salaries, wages and employee benefits	$ 19,990	20,024	$ 15,682
Supplies and services	36,304	40,365	35,729
Supplies and services from support service arrangements with related parties (b)	75	75	75
Contribution to IMAG IS	-	-	2,769
Grants	81,752	83,215	70,238
Financial transactions and other	47	48	448
Amortization of capital assets	10,440	6,934	7,170
Total expenses	$ 148,608	150,661	$ 132,111

(a) Effective April 1, 1999, the Department of Innovation and Science was established as a result of a major reorganization and other transfers of responsibility announced by the government during the year. This budget amount has restated the 1999-2000 Government and Lottery Fund Estimates that were approved on April 29th, 1999. The breakdown of expenses by object is based on an estimate by management.

(b) The Department pays for financial and administrative services from the Department of Learning.

DEPARTMENT OF INNOVATION AND SCIENCE
SCHEDULE TO FINANCIAL STATEMENTS
BUDGET
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 4

(In thousands)

	2000 Estimates Restated (a)	Encumbrance (b)	2000 Budget Restated	Authorized Supplementary (c)	2000 Authorized Budget
Revenues					
Lottery Fund	$ 32,250	$ -	$ 32,250	$ -	$ 32,250
Service revenue to department	22,730	-	22,730	-	22,730
Contribution to IMAG IS	-	-	-	-	-
Government of Canada	-	-	-	-	-
Other revenue	-	-	-	-	-
	54,980	-	54,980	-	54,980
Expenses					
Ministry Support Services	3,900	-	3,900	650	4,550
Government Information and Communication Systems	59,421	-	59,421	2,000	61,421
Research Operations and Technology Commercialization	85,287	-	85,287	-	85,287
	148,608	-	148,608	2,650	151,258
Valuation adjustments					
Provision for vacation pay	-	-	-	-	-
Other					
Loss on disposal of capital assets, net	-	-	-	-	-
Write downs of capital assets	-	-	-	-	-
	-	-	-	-	-
Net operating results	$ (93,628)	$ -	$ (93,628)	$ (2,650)	$ (96,278)
Capital investment	$ 8,295	$ -	$ 8,295	$ -	$ 8,295

(a) Effective April 1, 1999, the Department of Innovation and Science was established as a result of a major reorganization and other transfers of responsibility announced by the government during the year. This budget amount has restated the 1999-2000 Government and Lottery Fund Estimates that were approved April 29, 1999 for both the major reorganization and transfers of responsibility authorized during the year.

(b) In the event that actual voted operating expenses or capital investments in the prior year exceed the authorized, the difference is known as an encumbrance. The encumbrance reduces the budgeted amount for voted expenses in the current year.

(c) Supplementary Estimates for Government Information and Communication Systems were approved on December 9, 1999, for achievement bonus they were approved on March 14, 2000. Treasury Board approval is pursuant to sections 29(1.1) of the Financial Administration Act (for net budgeted initiatives).

DEPARTMENT OF INNOVATION AND SCIENCE
SCHEDULE TO FINANCIAL STATEMENTS
COMPARISON OF EXPENSES BY ELEMENT TO AUTHORIZED BUDGET
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 5

(In thousands)

	2000 Estimates Restated (a)	Encumbrance (b)	2000 Budget Restated	Authorized Supplementary (c)	2000 Authorized Budget	2000 Actual Expense	Unexpended (Over Expended) (d)
Voted Expenses							
Program 1 Ministry Support Services							
1.0.1 Minister's Office	$ 300	$ -	$ 300	$ -	$ 300	$ 298	$ 4
1.0.2 Deputy Minister's Office	300	-	300	-	300	299	1
1.0.3 Corporate Services	2,600	-	2,600	-	2,600	2,580	20
1.0.4 Communications	700	-	700	-	700	747	(47)
1.0.5 Achievement Bonus	-		-	650	650	650	-
	3,900	-	3,900	650	4,550	4,572	(22)
Program 2 Government Information and Communication Systems							
2.0.1 Information Technology Services	47,181	-	47,181	2,000	49,181	52,204	(3,023)
2.0.2 Office of the Chief Information Officer	1,800	-	1,800	-	1,800	1,529	271
2.0.3 Amortization	10,440	-	10,440	-	10,440	6,935	3,505
2.0.4 Dedicated Revenue	-	-	-	-	-	-	-
	59,421	-	59,421	2,000	61,421	60,668	753
Program 3 Research Operations & Technology Commercialization							
Alberta Science, Research & Technology Authority							
3.1.1 Operations and Policy Research	4,912	-	4,912	-	4,912	4,559	353
3.1.2 Strategic Research Initiatives	32,250	-	32,250	-	32,250	17,384	14,866
3.1.3 Applied Research & Development	27,080	-	27,080	-	27,080	27,081	(1)
University Research Programs							
3.2.1 Intellectual Infrastructure Partnerships (IIPP)	15,000	-	15,000	-	15,000	28,879	(13,879)
3.2.2 Research Excellence Envelope (REE)	3,500	-	3,500	-	3,500	5,500	(2,000)
Technology Commercialization							
3.3.1 Federal-Provincial Initiatives	1,845	-	1,845	-	1,845	1,354	491
3.3.2 Forest Products Development	700	-	700	-	700	665	35
	85,287	-	85,287	-	85,287	85,421	(134)
	$ 148,608	$ -	$ 148,608	$ 2,650	$ 151,258	$ 150,661	$ 597
Voted Capital Investment	$ 8,295	$ -	$ 8,295	$ -	$ 8,295	$ 4,018	$ 4,277

DEPARTMENT OF INNOVATION AND SCIENCE
SCHEDULE TO FINANCIAL STATEMENTS
COMPARISON OF EXPENSES BY ELEMENT TO AUTHORIZED BUDGET
FOR THE YEAR ENDED MARCH 31, 2000

(a) Effective April 1, 1999, the Department of Innovation and Science was established as a result of a major reorganization and other transfers of responsibility announced by the government during the year. This budget amount has restated the 1999-2000 Government and Lottery Fund Estimates that were approved April 29th, 1999 for both the major reorganization and transfers of responsibility authorized during the year.

(b) In the event that actual voted operating expenses or capital investments in the prior year exceed the authorized, the difference is known as an encumbrance. The encumbrance reduces the budgeted amount for voted expenses in the current year.

(c) Supplementary Estimates for Government Information and Communication Systems were approved on December 9, 1999, for achievement bonus they were approved on March 14, 2000. Treasury Board approval is pursuant to sections 29(1.1) of the Financial Administration Act (for net budgeted initiatives).

(d) A strategic decision was made to allocate ASRA funding to increase investment in university research by the Department.

DEPARTMENT OF INNOVATION AND SCIENCE
SCHEDULE TO FINANCIAL STATEMENTS
SALARY AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 6

	2000			1999
	Salary (2)	Benefits & Allowances (3)	Total	Total
CURRENT EXECUTIVES (1)				
Deputy Minister (4)	$ 154,278	$ 27,949	$ 182,227	$ 163,326
Executives:				
Information Management and Technology Services (5)	106,140	19,646	125,786	120,680
Contract and Corporate Services (6)	121,098	21,877	142,975	132,896
Research and Technology Commercialization (7)	66,218	10,689	76,907	-
Chief Information Officer (8)	101,186	17,184	118,370	94,138
FORMER EXECUTIVES (1)				
Chief Information Officer (9)	94,311	3,198	97,509	121,019

NOTES:

(1) Prepared in accordance with Treasury Board Directive 12/98. This schedule includes the salary and benefits of:

Current Executives:
This includes the salary and benefits of the last incumbent. Where the last incumbent has held the position for part of the year, his/her salary and benefits as an executive in previous positions within the government reporting entity are also included.

Former Executive:
This includes the salary and benefits of a former executive who left the government during the year.

(2) Salary includes regular base pay, bonuses, overtime and lump sum payments.

(3) Government's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition fees.

(4) Effective May 27, 1999, Order-in-Council 242/99 reassigned the Deputy Minister, Education, to the newly created position of Deputy Minister, Innovation and Science. Automobile provided, no dollar amount included in benefits and allowances figures.

(5) As a result of the May 27, 1999 reorganization (Order-in-Council 243/99), the Assistant Deputy Minister, Information Management & Technology Services position was transferred from Strategic Information and Technology Initiatives to the Department of Innovation and Science.

(6) As a result of the May 27, 1999 reorganization (Order-in-Council 243/99), the Assistant Deputy Minister, Contract and Corporate Services, was transferred to the Department of Innovation and Science from the position of Executive Director, Finance &

DEPARTMENT OF INNOVATION AND SCIENCE
SCHEDULE TO FINANCIAL STATEMENTS
SALARY AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 2000

Administration, Public Works, Supply and Services (PWSS). The incumbent had also been assigned the role of Acting Deputy Minster, PWSS for the period April 1, 1999 to May 27, 1999.

(7) As a result of the May 27, 1999 reorganization (Order-in-Council 243/99), the Executive Director, Research and Technology Commercialization, was transferred to the Department of Innovation and Science from the position of Executive Director, Technology Commercialization Initiatives, Economic Development. The incumbent became a member of the department's senior management group effective August 1, 1999. Salary includes holiday pay of $2,561.

(8) As a result of the May 27, 1999 reorganization (Order-in-Council 243/99), the Chief Information Officer position was transferred from Strategic Information Technology Initiatives to the Department of Innovation and Science. On October 1, 1999, the Director of Operations for Executive Council was appointed Chief Information Officer and transferred to the Department of Innovation and Science.

(9) The incumbent retired on June 1, 1999 with a vacation payout of $26,982 and severance payment of $50,295. The position was filled by another incumbent on October 1, 1999.

DEPARTMENT OF INNOVATION AND SCIENCE
SCHEDULE TO FINANCIAL STATEMENTS
RELATED PARTY TRANSACTIONS
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 7

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid certain taxes and fees set by regulation for permits, license and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2000	1999	2000	1999
Revenues:				
Lottery Fund	$ -	$ -	$ 32,250	$ -
IT Billings	57	102	22,086	20,677
	$ 57	$ 102	$ 54,336	$ 20,677
Expenses:				
Grant to AARI	$ 1,077	$ -	$ -	$ -
Grants to ASRA	45,395	42,510	-	-
Grants to ARC	650	-	-	-
IT Billings	57	-	22,086	20,677
Charges from Alberta Infrastructure	-	-	11	14
	$ 47,179	$ 42,510	$ 22,097	$ 20,691
Net of capital assets transferred from the Department	$ -	$ -	$ (589)	$ (1,377)

The Department also had the following transactions with related parties for which no consideration was exchanged.

The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(In thousands)

	Entities in the Ministry		Other Entities	
	2000	1999	2000	1999
Revenues (notional):	$ -	$ -	$ -	$ -
Expenses (notional):				
Accomodation	$ -	$ -	$ 1,486	$ 1,486 *
Contribution to IMAGIS from other ministries			920	3,966
Legal Services	-	-	85	27
	$ -	$ -	$ 2,491	$ 5,479

* The 1999 accomodation cost is an estimate of costs incurred by Alberta Infrastructure.

ALBERTA AGRICULTURAL RESEARCH INSTITUTE

FINANCIAL STATEMENTS

MARCH 31, 2000

Auditor's Report

Statement of Operations

Statement of Changes in Financial Position

Statement of Financial Position

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Schedule of Revenues

Schedule of Expenses Detailed by Object

Schedule of Comparison of Expenses by Element to Authorized Budget

Schedule of Salary, Honoraria and Benefits Disclosure

Schedule of Related Party Transactions

AUDITOR'S REPORT

To the Minister of Innovation and Science

I have audited the statement of financial position of the Alberta Agricultural Research Institute as at March 31, 2000 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Institute's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Alberta Agricultural Research Institute is required to follow the corporate government accounting policies and reporting practices as disclosed in Note 3. These accounting policies have been established by Alberta Treasury and are consistent across ministries. With certain exceptions, the basis of accounting is in accordance with generally accepted accounting principles. My reservation of opinion in this auditor's report identifies the exception from generally accepted accounting principles that arise from following the accounting policies established by Alberta Treasury.

The following accounting policy is an exception from generally accepted accounting principles:

Excluded Direct Costs

Accommodation and certain other administration costs incurred in the operation of the Institute have not been included in expenses. These costs, estimated at $ 289,000 are recorded by the departments that paid the expenses on behalf of the Institute.

In my opinion, except for the effect of the matter discussed in the preceding section, these financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Original signed by
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 24, 2000

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2000

(In thousands)

	2000 Budget	2000 Actual	1999 Actual
Revenues (Schedule 1)			
Internal Governmental Transfers	$ 9,767	$ 9,755	$ 8,782
Transfer from the Government of Canada	50	129	1,738
Fees, Permits, and Licenses	78	87	85
Contributions from sponsors	900	2,031	1,704
Interest	210	378	378
Other revenue	100	117	7
	11,105	12,497	12,694
Expenses (Schedules 2 and 3)			
Research Funding	10,170	10,283	11,553
Administration	499	501	556
Research Information	740	759	762
	11,409	11,543	12,871
Net operating results	$ (304)	$ 954	$ (177)

The accompanying notes and schedules are part of these financial statements

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 2000

	(In thousands) 2000	1999
Operating transactions		
Net operating results	$ 954	$ (177)
Decrease (increase) in accounts receivable	30	(64)
Decrease in accounts payable	(1,757)	822
Increase deferred contributions	451	895
Net cash provided by operating transactions	(322)	1,476
Investing transactions		
Increase in restricted cash	(451)	(895)
Net cash (used) provided	(773)	581
Cash, beginning of year	5,295	4,714
Cash, end of year	$ 4,522	$ 5,295

The accompanying notes and schedules are part of these financial statements

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2000

	(in thousands) 2000	1999
Assets		
Cash (Note 5)	$ 4,522	$ 5,295
Restricted cash (Note 5)	2,331	1,880
Accounts receivable (Note 6)	113	143
	$ 6,966	$ 7,318
Liabilities		
Accounts payable and accrued liabilities	$ 2,137	$ 3,894
Deferred contributions (Note 7)	2,331	1,880
	4,468	5,774
Net Assets		
Net assets, beginning of year	1,544	1,721
Net operating results	954	(177)
Net assets, end of year	2,498	1,544
	$ 6,966	$ 7,318

The accompanying notes and schedules are part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2000

Note 1 Authority

The Alberta Agricultural Research Institute (the Institute) operates as a provincial corporation under the authority of the Alberta Agricultural Research Institute Act. On May 30, 2000, the Alberta Science, Research and Technology Authority Amendment Act, 2000 was given Royal Assent. This legislation transfers the assets and liabilities of the Institute to the Alberta Science, Research and Technology Authority effective August 1, 2000 and establishes the Institute as an unincorporated board.

Note 2 Purpose

The purpose of the Alberta Agricultural Research Institute is to promote, coordinate, prioritize and support agricultural research ensuring transfer of the resulting knowledge for the benefit of a viable and sustainable agri-food industry.

Note 3 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

(a) Reporting Entity

The reporting entity is the Institute, which is part of the Ministry of Innovation and Science and for which the Minister of Innovation and Science is accountable. Other entities reporting to the Minister are the Department of Innovation and Science, the Alberta Oil Sands Technology and Research Authority, the Alberta Science, Research and Technology Authority and it's subsidiaries including the Alberta Research Council Inc. and it's subsidiaries and the Informatics Circle of Research Excellence Inc. The activities of these organizations are not included in these financial statements. The financial statements for the individual entities provide more detailed information about the operations of each entity.

Since significant financial transactions of the Ministry are reported outside the Institute's financial statements, the Ministry financial statements provide a more comprehensive accounting of the financial position and results of the Ministry's operations. The Ministry Annual Report provides a more complete picture of the responsibilities for which the Minister is accountable.

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual method of accounting.

Contributions from the Lottery Fund and the Department of Innovation & Science are subject to the approval of annual appropriations and are recorded in the year for which they are approved. The Institute may be required to refund unexpended portions of contributions held at the end of a fiscal year.

Contributions from sponsors represent donations to the Institute for specific research projects and do not include donations in-kind.

Unrestricted contributions are recognized as revenue when they are received.

Note 3 Summary of Significant Accounting Policies and Reporting Practices (con't)

Expenses

Expenses represent the costs of resources consumed during the year on the Institute's operations.

Certain expenses, primarily for office space, legal advice and some administrative services incurred on behalf of the Institute by other Ministries are not reflected in the Statement of Operations. Schedule 5 discloses information on these related party transactions.

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

Research grants and administered awards are recorded as an expense when approved for payment by the Board of Directors and all terms and conditions of eligibility for payment of the award have been met.

Assets

Financial assets of the Institute include financial claims, such as advances to and receivables from other organizations, employees, and other individuals.

Liabilities

Liabilities represent all financial claims payable by the Institute at fiscal year end.

Externally restricted contributions are recorded as deferred contributions until the related expenses are incurred, at which time they are recognized as revenue. On April 1, 2000, all such deferred contributions and responsibility for their administration will be transferred to the Department of Agriculture, Food & Rural Development.

Net Assets

Net assets represents the difference between the value of assets held by the Institute and its liabilities.

Valuation of Financial Assets & Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, restricted cash, accounts receivable, accounts payable, and deferred contributions are estimated to approximate their book values.

Note 4 Reorganization

As a result of a major reorganization announced by the government on May 25, 1999, the Institute was transferred to the Ministry of Innovation & Science from the Ministry of Agriculture, Food and Rural Development. Comparatives for 1999 have been restated.

Note 5 Cash

(In thousands)

(a) Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate or earnings of the CCITF which varies depending on prevailing market interest rates. Interest earned on cash balances in the amount of $378 (1999 - $378) is credited to the Institute's CCITF account and is reflected in these financial statements.

(b) Restricted Cash

Restricted cash represents unspent contributions that are subject to externally imposed restrictions related to specific research projects or programs.

Note 6 Accounts Receivable

(In thousands)

	2000			1999
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Sponsorships	$ 16	$ -	$16	$ 140
Other Ministries	64	-	64	3
Interest Receivable	33	-	33	-
Government of Canada	0	-	-	-
	$ 113	$ -	$ 113	$ 143

Note 7 Deferred Contributions

(In thousands)

Deferred contributions represent contributions received relating to future years and unspent funds received for restricted purposes.

The deferred contributions balance is comprised of the following:

	2000	1999
Restricted contributions received during the year:		
Beef Industry Development Fund	$ -	$ 1,761
Industry sponsored projects	1,823	1,620
Sponsors matching grants projects	525	437
Government sponsored projects	633	658
Variety testing program	228	262
Development program	186	249
Other	-	67
	3,395	5,054
Less amounts recognized as revenue in the year	(2,891)	(4,160)
Increase during the year	504	894
Accounts receivable	(53)	0
Balance at beginning of year	1,880	986
Balance at end of year	$ 2,331	$ 1,880

Note 7 Deferred Contributions (con't)

Balance at the end of the year is comprised of:

	2000	1999
Beef Industry Development Fund	$ 65	$ 91
Industry sponsored projects	862	728
Sponsors matching grants projects	520	253
Government sponsored projects	158	165
Variety testing program	83	106
Development program	643	517
Other	-	20
	$ 2,331	$ 1,880

Note 8 Pensions

(In thousands)

The authority participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The authority also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers established by the government effective July 1, 1999. The expense for these pension plans is equivalent to the annual contributions of $75 for the year ended March 31, 2000 (1999-$48).

At December 31, 1999, the Management Employees Pension Plan reported a surplus of $46,019 (1998 - $4,355) and the Public Service Pension Plan reported a surplus of $517,020 (1998 - $406,445). At December 31, 1999, the Supplementary Retirement Plan for Public Service Managers had a surplus of $33.

Note 9 Commitments

(In thousands)

The Institute has commitments as at March 31, 2000 totaling $5,216 for 2001 (1999 - $5,334) for approved projects.

Note 10 Budget

The budget of expenses by program for the Institute was included in the 1999-2000 Government Estimates approved April 29, 1999.

Note 11 Approval of Financial Statements

These financial statements were reviewed by management and recommended to the board for approval.

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
SCHEDULE TO FINANCIAL STATEMENTS REVENUES
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 1

(in thousands)

	2000 Budget	2000 Actual	1999 Actual
Internal Government Transfers (Schedule 5)			
Lottery Fund	$ 8,000	$ 8,000	$ -
Innovation & Science	1,077	1,077	-
Agriculture, Food & Rural Development	690	678	8,782
	9,767	9,755	8,782
Transfer from the Government of Canada			
Agriculture & Agri-Food Canada			
Beef Industry Development Program	-	26	1,672
Contribution to Projects	-	103	66
Federal Initiatives	50	-	
	50	129	1,738
Fees, Permits, and Licences	78	87	85
Contributions from Sponsors	900	2,031	1,704
Interest	210	378	378
	1,188	2,496	2,167
Other Revenues:			
Prior Year's Refund of Expenditures	-	57	-
Development Programs	100	60	7
	100	117	7
Total Revenues	$ 11,105	$ 12,497	$ 12,694

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
EXPENSES DETAILED BY OBJECT
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 2

(In thousands)

	2000 Budget	2000 Actual	1999 Actual
Salaries, wages and employee benefits	$ 1,799	$ 2,379	$ 2,030
Supplies and services	977	1,311	1,102
Grants	8,620	7,838	9,724
Financial transactions and other	13	15	15
Total expenses	$ 11,409	$ 11,543	$ 12,871

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
SCHEDULE TO FINANCIAL STATEMENTS
COMPARISON OF EXPENSES BY ELEMENT TO AUTHORIZED BUDGET
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 3

(In thousands)

	2000 Authorized Budget	2000 Actual Expense	Unexpended (Over Expended)
Expenses			
Research Funding			
Research grants and administered awards	$ 5,215	$ 5,060	$ 155
Agriculture Research Program, Vegreville	2,305	2,310	(5)
Agriculture & Agri-Food Canada - Beef Industry Dev. Fund	-	26	(26)
Agriculture & Agri-Food Canada - Other projects	50	103	(53)
Sponsored research	900	2,031	(1,131)
Alberta sponsored	700	679	21
Development programs	-	74	(74)
Emerging strategic issues	1,000	-	1,000
	10,170	10,283	(113)
Administration			
Administration	444	449	(5)
Program Cost	50	52	(2)
Change in unfunded pension liability	(5)	-	(5)
Performance measurements	10	-	10
	499	501	(2)
Research Information			
On Farm Demonstration	700	690	10
Information Transfer	40	69	(29)
	740	759	(19)
	$ 11,409	$ 11,543	$ (134) *

*The budget to actual overexpended variance is ofset by an increase in actual revenues

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
SCHEDULE TO FINANCIAL STATEMENTS
SALARY, HONORARIA AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 4

	2000			1999
	Salary (1)	Benefits & Allowances (2)	Total (3)	Total
Chairman of Board	$ 15,000	$ 158	$ 15,158	$ 15,135
Board Members	17,987	-	17,987	16,118

NOTES:

(1) Salary includes regular base pay, bonuses, overtime, lump sum payments and honoraria. Board members of the Alberta Agricultural Research Institute receive honoraria.

(2) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental death and dismemberment insurance, short and long-term disability plans, professional memberships and tuition fees.

(3) All management and administrative activities for the Alberta Agricultural Research Institute are carried out by the Department of Innovation and Science.

ALBERTA AGRICULTURAL RESEARCH INSTITUTE
SCHEDULE TO FINANCIAL STATEMENTS
RELATED PARTY TRANSACTIONS
FOR THE YEAR ENDED MARCH 31, 2000

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Institute and its employees paid certain taxes and fees set by regulation for permits, license and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Institute had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

Schedule 5

(in thousands)

	Entities in the Ministry		Other Entities	
	2000	**1999**	**2000**	**1999**
Revenues:				
Grant from Innovation & Science	$ 1,077	$ -	$ -	$ -
Lottery Fund	-	-	8,000	-
Agriculture, Food & Rural Development	-	-	678	8,782
Alberta Environment	-	-	5	-
	$ 1,077	$ -	$ 8,683	$ 8,782
Expenses:				
Grant to Alberta Research Council Inc.	$ 2,600	$ 2,657	$ -	$ -

The Institute also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(in thousands)

	Entities in the Ministry		Other Entities	
	2000	**1999**	**2000**	**1999**
Revenues	$ -	$ -	$ -	$ -
Expenses (notional):				
Services Provided by Alberta Food and Rural Development	$ -	$ -	$ 277	$ 131
Accomodation	-	-	12	10
	$ -	$ -	$ 289	$ 141

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY

FINANCIAL STATEMENTS

MARCH 31, 2000

Auditor's Report
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Schedule of Related Party Transactions

AUDITOR'S REPORT

To the Minister of Innovation and Science

I have audited the statement of financial position of the Alberta Oil Sands Technology and Research Authority as at March 31, 2000 and the statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Alberta Oil Sands Research and Technology Authority is required to follow the corporate government accounting policies and reporting practices as disclosed in Note 3. These accounting policies have been established by Alberta Treasury and are consistent across ministries. With certain exceptions, the basis of accounting is in accordance with generally accepted accounting principles. My reservation of opinion in this auditor's report identifies the exception from generally accepted accounting principle that arises from following the accounting policies established by Alberta Treasury.

The following accounting policy is an exception from generally accepted acounting principles:

Excluded direct costs

Accommodation and certain other administration costs incurred in the operation of the Authority have not been included in expenses. These costs, estimated at $14,000, are recorded by the departments that paid the expenses on behalf of the Authority.

In my opinion, except for the effect of the matter discussed in the preceding section, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Original signed by
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 24, 2000

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
STATEMENT OF OPERATIONS
FOR THE PERIOD JULY 1, 1999 TO MARCH 31, 2000

	2000 Budget (Schedule 1)	(In thousands) 2000 Actual	1999 Actual
Revenues			
Production revenue and recoveries	$ 340	$ 1,043	$ 776
Sale of technology	2,317	-	102
Contribution from the Department of Resource Development	-	-	8,200
	2,657	1,043	9,078
Expenses			
In situ oil sand and heavy oil	3,200	2,389	3,343
Oil sands mining and extraction	2,000	2,025	8,250
University programs	1,450	1,376	1,184
Conventional oil, enhanced oil recovery & natural gas	575	649	1,090
Bitumen and heavy oil upgrading	700	612	939
Transportation & marketing	-	86	(3)
Hydrogen and energy related environmental technologies	95	82	-
Underground test facility	-	34	98
Greenhouse gas and climate change technologies	20	20	-
Technology management	-	13	378
Miscellaneous	-	2	-
	8,040	7,288	15,279
Net operating results	$ (5,383)	$ (6,245)	$ (6,201)

The accompanying notes and schedules are part of these financial statements

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 2000

	(In thousands)	
	2000	1999
Operating transactions		
Net operating results	$ (6,245)	$ (6,201)
Increase in accounts receivable	(361)	(10)
Decrease in accounts payable	(725)	-
Increase (decrease) in holdbacks payable	(831)	1,898
Net cash used	(8,162)	(4,313)
Cash, beginning of year	22,324	26,637
Cash, end of year	$ 14,162	$ 22,324

The accompanying notes and schedules are part of these financial statements

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2000

	(In thousands) 2000	1999
Assets		
Cash (Note 4)	$ 14,162	$ 22,324
Accounts receivable (Note 5)	838	477
	$ 15,000	$ 22,801
Liabilities		
Accounts payable and accrued liabilities	$ 491	$ 775
Provision for project abandonment	2,188	2,629
Holdback liability	352	1,183
	3,031	4,587
Net Assets		
Net assets at beginning of year	18,214	24,415
Net operating results	(6,245)	(6,201)
Net assets at end of year	11,969	18,214
	$ 15,000	$ 22,801

The accompanying notes and schedules are part of these financial statements

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2000

Note 1 Authority

The Alberta Oil Sands Technology and Research Authority (AOSTRA) operates under the authority of the Oil Sands Technology and Research Authority Act, Chapter 0-6, Revised Statues of Alberta 1980. On May 30, 2000, the Alberta Science, Research and Technology Authority Amendment Act, 2000 was given Royal Assent. This legislation transfers the assets and liabilities of AOSTRA to the Alberta Science, Research and Technology Authority effective August 1, 2000. In addition, the legislation changes the name of AOSTRA to the Alberta Energy Research Institute (AERI), establishes AERI as an unincorporated board and broadens the mandate for AERI to include all energy research.

Note 2 Purpose

The purpose of AOSTRA is to assist in the development of new technology for recovery and processing of petroleum from Alberta oil sands deposits and heavy crude reserves, and enhanced recovery of oil from conventional petroleum reservoirs.

Note 3 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

(a) Reporting Entity

The reporting entity is AOSTRA, which is part of the Ministry of Innovation and Science for which the Minister of Innovation and Science is accountable. Other entities reporting to the Minister are the Department of Innovation and Science, the Alberta Agricultural Research Institute, the Alberta Science, Research and Technology Authority and it's subsidiaries including the Alberta Research Council Inc. and it's subsidiaries and the Informatics Circle of Research Excellence Inc. The activities of these organizations are not included in these financial statements. The financial statements for the individual entities provide more detailed information about the operations of each entity.

Since significant financial transactions of the Ministry are reported outside the AOSTRA's financial statements, the Ministry financial statements provide a more comprehensive accounting of the financial position and results of the Ministry's operations. The Ministry Annual Report provides a more complete picture of the responsibilities for which the Minister is accountable.

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue. Contract revenue is recognized as costs are incurred. Full

Note 3 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

provision is made for all known or estimated losses on incomplete contracts as soon as they can reasonably be estimated.

Expenses

Expenses represent the costs of resources consumed during the year on AOSTRA's operations.

Grants are recorded as expenses when authorized and when all eligibility criteria have been satisfied.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Assets

Financial assets of AOSTRA include financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Liabilities

Liabilities represent all financial claims payable by AOSTRA at fiscal year end.

Net Assets

Net assets represents the difference between the value of assets held by AOSTRA and its liabilities.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, advances, accounts payable and accrued liabilities, and unearned revenues are estimated to approximate their book values.

Note 4 Cash

(In thousands)

Cash consists primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term fixed income securities with a maximum term to maturity of five years. The securities are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Due to the short-term nature of the Fund's investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates. Interest earned on cash balances in the amount of $975 (1999 - $1,241) is credited to general revenues of the Province of Alberta and is therefore not reflected in these financial statements.

Note 5 Accounts Receivable

(In thousands)

	2000			1999
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Net Realizable Value
Commercial	$ 838	$ -	$ 838	$ 477

Accounts receivable are unsecured and non-interest bearing.

Note 6 Commitments

(In thousands)

AOSTRA has general commitments as at March 31, 2000 totalling $6,157 (1999 - $10,569) for approved projects.

Year	Committed
2001	$ 3,433
2002	1,690
2003	1,034
	$ 6,157

Note 7 Provision for Future Project Abandonment

(In thousands)

Under joint participation agreements, AOSTRA will incur certain costs when wells and experimental projects are abandoned. Management's estimate of future abandonment costs is $2,188 (1999 - $2,629).

Note 8 Salary and Benefits

All individuals who are involved in the operations and management of AOSTRA are employees of the Department of Innovation and Science. No honoraria payments are made to AOSTRA board members, however, board members are reimbursed for travel expenses during the year.

Note 9 Comparative Figures

Certain 1999 figures have been reclassified to conform to the 2000 presentation.

Note 10 Budget

The budget was included in the 1999-2000 Estimates for the Government of Alberta. A more detailed budget, which was prepared by management, has been included in these financial statements.

Note 11 Approval of Financial Statements

These financial statements were reviewed by management and recommended to the board for approval.

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
SCHEDULE TO FINANCIAL STATEMENTS
BUDGET
FOR THE YEAR ENDED MARCH 31,2000

Schedule 1

(In thousands)

	2000 Estimates Restated (a)	Encumbrance (b)	2000 Budget Restated	Authorized Supplementary	2000 Authorized Budget
Revenues					
Production revenue and recoveries	$ 340	$ -	$ 340	$ -	$ 340
Sale of technology	2,317	-	2,317	-	2,317
	2,657	-	2,657	-	2,657
Expenses					
Voted:					
AOSTRA Administration	-	-	-	-	-
Statutory:					
Alberta Oil Sands Technology and Research Authority	8,040	-	8,040	-	8,040
	8,040	-	8,040	-	8,040
Valuation adjustments (Note 3(b))					
Provision for vacation pay	-	-	-	-	-
Other					
Loss on disposal of capital assets, net	-	-	-	-	-
Write down of capital assets	-	-	-	-	-
	-	-	-	-	-
Net operating results	$ (5,383)	$ -	$ (5,383)	$ -	$ (5,383)
Capital Investment	$ -	$ -	$ -	$ -	$ -

(a) This budget amount restated the 1999-2000 Government and Lottery Fund Estimates that were approved April 29, 1999 for both the major reorganization and transfers of responsibility authorized during the year.

(b) In the event that actual voted operating expenses or capital investments in the prior year exceed the authorized, the difference is known as an encumbrance. The encumbrance reduces the budget amount for voted expenses in the current year.

ALBERTA OIL SANDS TECHNOLOGY AND RESEARCH AUTHORITY
SCHEDULE TO FINANCIAL STATEMENTS
RELATED PARTY TRANSACTIONS
FOR THE YEAR ENDED MARCH 31,2000

Schedule 2

Related parties are those entities consolidated in the Province of Alberta's financial statements Related parties also include management in the Department.

The Authority and its employees paid certain taxes and fees set by regulation for permits, license and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Authority had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2000	1999	2000	1999
Revenues:				
Contribution from Resource Development	$ -	$ -	$ -	$ 8,200
Fees & Charges	-	-	-	-
Other	-	-	-	-
Interest	-	-	-	-
	$ -	$ -	$ -	$ 8,200
Expenses:				
Grants to Alberta Research Council	$ 1,113	$ 1,360	$ -	$ -
Fees & Charges	-	-	-	-
Other	-	-	-	-
Interest	-	-	-	-
	$ 1,113	$ 1,360	$ -	$ -

The Authority also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

(In thousands)

	Entities in the Ministry		Other Entities	
	2000	1999	2000	1999
Revenues (notional):				
Fees and charges*	$ -	$ -	$ -	$ -
Other	-	-	-	-
Interest	-	-	-	-
	$ -	$ -	$ -	$ -
Revenues	$ -	$ -	$ -	$ -
Expenses (notional):				
	$ -	$ -	$ 14	$ 14
	-	-	-	-
Accomodation	$ -	$ -	$ 14	$ 14

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY

CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2000

Auditor's Report

Consolidated Statement of Operations

Consolidated Statement of Changes in Financial Position

Consolidated Statement of Financial Position

Notes to the Financial Statements

Consolidated Schedule of Expenses Detailed by Object

Consolidated Schedule of Operating Budget

Consolidated Schedule of Operating Actuals

Consolidated Schedule of Comparison of Expenses by Element to Authorized Budget

Consolidated Schedule of Salary, Honoraria and Benefits Disclosure

Consolidated Schedule of Related Party Transactions

AUDITOR'S REPORT

To the Board of Management of the
Alberta Science, Research and
Technology Authority

I have audited the consolidated statement of financial position of the Alberta Science, Research and Technology Authority as at March 31, 2000 and the consolidated statements of operations and changes in financial position for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Alberta Science, Research and Technology Authority is required to follow the corporate government accounting policies and reporting practices as disclosed in Note 3. These accounting policies have been established by Alberta Treasury and are consistent across ministries. With certain exceptions, the basis of accounting is in accordance with generally accepted accounting principles. My reservation of opinion in this auditor's report identifies the exceptions from generally accepted accounting principles that arise from following the accounting policies established by Alberta Treasury.

The following accounting policy is an exception from generally accepted accounting principles:

Excluded Direct Costs

Accommodation and certain other administration costs incurred in the operation of the Authority have not been included in expenses. These costs, estimated at $11,873,000 are recorded by the departments that paid the expenses on behalf of the Authority.

In my opinion, except for the effect of the matters discussed in the preceding section, these financial statements present fairly, in all material respects, the consolidated financial position of the Authority as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Original signed by
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 24, 2000

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2000

		(In thousands)	
	2000 Budget (Schedule 2)	2000 Actual (Schedule 3)	1999 Actual
Revenues			
Grant from Department of Innovation & Science	$ 60,330	$ 45,395	$ 42,510
Alberta Research Council Inc.			
Commercial	19,651	23,950	18,560
Alberta Government department and agencies	8,000	7,725	7,280
Other revenue	-	155	749
	87,981	77,225	69,099
(Schedule 1) **Expenses**			
Alberta Science and Research Authority Secretariat	1,000	931	-
Alberta Research Council Inc.	54,148	59,407	50,391
Strategic Research Initiatives	22,250	15,822	17,425
Alberta Informatics Circle of Research Excellence Inc.	10,000	853	-
	87,398	77,013	67,816
Valuation adjustments			
Provision for vacation pay	-	2	50
Total expenses	87,398	77,015	67,866
Net operating results	$ 583	$ 210	$ 1,233

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED MARCH 31, 2000

	(In thousands) 2000	1999
Operating transactions		
Net operating results from operations	$ 210	$ 1,233
Non-cash items included in net operating results:		
Amortization of capital assets	2,957	2,610
Valuation adjustments (Note 3(c))	2	50
	3,169	3,893
Increase in accounts receivable	(3,413)	58
Decrease in other assets	304	(98)
Increase (decrease) in accounts payable	(2,691)	1,779
Increase in unearned revenue	3,473	250
Net cash provided by operating transactions	842	5,882
Investing transactions		
Purchases of capital assets	(11,504)	(2,426)
Proceeds from disposal of capital assets	21	23
Increase in long term notes payable and promissory note	2,710	-
Cash used by investing transactions	(8,773)	(2,403)
Financing transactions		
Net transfers from General Revenues	(3,529)	1,286
	(3,529)	1,286
Net cash (used) provided	(11,460)	4,765
Cash, beginning of year	20,188	15,423
Cash, end of year	$ 8,728	$ 20,188

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2000

(In thousands)

	2000	1999
Assets		
Cash and cash equivalents (Note 5)	$ 9,009	$ 20,188
Accounts receivable (Note 6)	11,074	7,661
Other assets	-	304
Capital assets (Note 7)	19,251	10,727
	$ 39,334	$ 38,880
Liabilities		
Accounts payable and accrued liabilities	$ 12,608	$ 15,299
Unearned revenue	4,891	1,418
Promissory note	281	-
Current portion of long term debt	336	-
	18,116	16,717
Long term debt (Note 8)	2,374	-
	20,490	16,717
Net Assets		
Net assets, beginning of year (Note 3(c))	22,163	19,644
Net operating results	210	1,233
Net transfers from General Revenues	(3,529)	1,286
Net assets, end of year	18,844	22,163
	$ 39,334	$ 38,880

The accompanying notes and schedules are part of these financial statements.

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED
MARCH 31, 2000

Note 1 Authority

The Minister of Innovation and Science is responsible for the Alberta Science, Research and Technology Authority (ASRA) and the Minister has been designated as responsible for various Acts by the Government Organization Act and its regulations. To fulfil these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the consolidated Alberta Science, Research and Technology Authority.

Organization	**Authority**
Alberta Science, Research and Technology Authority	Alberta Science, Research and Technology Authority Act
Alberta Research Council Inc. including the following wholly owned subsidiaries: - C-FER Technologies (1999) Inc. (formerly C-FER Inc.) - 764330 Alberta Inc. (formerly C-FER Technologies Inc.) - Petroleum Recovery Insitute - PRI Solutions	Alberta Science, Research and Technology Authority Act
Alberta Informatics Circle of Research Excellence Inc.	Alberta Science, Research and Technology Authority Act

During the prior year, the Alberta Research Council Inc. operated under the authority of the Alberta Research Council Act, Chapter A-35.1, Statutes of Alberta 1981, which was repealed April 1, 1999. The Alberta Research Council Inc. continues as a wholly owned subsidiary of the Alberta Science, Research and Technology Authority.

On May 30, 2000, the Alberta Science, Research and Technology Authority Amendment Act, 2000 was given Royal Assent. This legislation transfers the assets and liabilities of the Alberta Agricultural Research Institute and the Alberta Oil Sands Technology and Research Authority to the Alberta Science, Research and Technology Authority effective August 1, 2000, and establishes these entities as unincorporated boards. In addition, the legislation changes the name of the Alberta Oil Sands Technology and Research Authority to the Alberta Energy Research Institute (AERI) and broadens the mandate for AERI to include all energy research.

Note 2 Purpose

The purpose of ASRA is to enhance the contribution of science, research and information technology to the sustainable prosperity and quality of life of all Albertans. The ultimate goal of ASRA is to increase the socio-economic benefits of science and research investments in the province of Alberta.

Note 3 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

(a) Reporting Entity

The reporting entity is ASRA and includes the operations of the Alberta Science, Research and Technology Authority, the Alberta Research Council Inc. and it's subsidiaries, and Informatics Circle of Research Excellence Inc. ASRA is part of the Ministry of Innovation and Science for which the Minister of Innovation and Science is accountable. Other entities reporting to the Minister are the Department of Innovation and Science, the Alberta Agricultural Research Institute, and the Alberta Oil Sands Technology and Research Authority. The activities of these organizations are not included in these financial statements. The financial statements for the individual entities provide more detailed information about the operations of each entity.

Since significant financial transactions of the Ministry are reported outside ASRA's financial statements, the Ministry financial statements provide a more comprehensive accounting of the financial position and results of the Ministry's operations. The Ministry Annual Report provides a more complete picture of the responsibilities for which the Minister is accountable.

(b) Method of Consolidation

The activities of the entities within ASRA are consolidated after adjusting them to a basis consistent with the accounting policies described below in (c). Revenue and expense transactions, investing and financing transactions, and related asset and liability accounts within ASRA have been eliminated. Details of the consolidation adjustments are provided in Schedules 2 and 3.

Note 3 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

(c) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue. Contract revenue is recognized as costs are incurred. Full provision is made for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

Royalties and licensing fee revenue is recognized when the amount can be reasonably estimated and there is reasonable assurance of collectablility of proceeds.

Expenses

Expenses represent the costs of resources consumed during the year on ASRA's operations.

Grants are recorded as expenditures when authorized and when all eligibility conditions have been satisfied.

Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

Certain expenses, primarily for office space and banking services, incurred on behalf of ASRA by other ministries are not reflected in the Statement of Operations. Schedule 6 discloses information on these related party transactions.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Assets

Financial assets include financial claims, such as advances to and receivables from other organizations, employees and other individuals.

The fair values of cash equivalents are estimated to approximate their carrying values.

Assets acquired by right are not included in these statements. Capital assets are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets.

Expenditures for patents owned as a result of research activity are not capitalized due to the uncertain value of benefits that may accrue.

Expenditures on the acquisition or development of other intangible assets including intellectual capital are not capitalized, as currently there is no acceptable methodology for measuring the value of future benefits accruing.

Net transfers from General Revenues is the difference between all cash receipts and all cash disbursements made.

Liabilities

Liabilities represent all financial claims payable by ASRA at fiscal year end.

Net Assets

Net assets represents the difference between the value of assets held by ASRA and its liabilities.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, advances, accounts payable and accrued liabilities, and unearned revenues are estimated to approximate their book values.

Note 3 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

Fair values of loans are not reported: there is no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

(d) Change in Accounting Policy
(In thousands)

Pension Expense

Effective April 1, 1999, ASRA changed the way it accounts for its participation in multi-employer pension plans to a defined contribution basis. This change in accounting policy has been applied retroactively with restatement of comparative amounts. As a result of this change, opening operating equity as of April 1, 1998, has increased by $1,679. For the year ended March 31, 1999, the pension liability has decreased by $1,204, and the salaries, wages and benefits expense has increased by $475.

Note 4 Changes in Operations and Programs

(a) Alberta Research Council Inc.

Effective April 1, 1999, an Order in Council approved the transfer of the management and control of Petroleum Recovery Institute, and its subsidiary PRI Solutions Inc., to the Alberta Research Council Inc. (ARC) for consideration of $nil. Petroleum Recovery Institute is a consortium-funded, research and technology development company supporting the needs of the oil industry.

Effective July 31, 1999, an Order in Council approved the acquisition of all outstanding shares of C-FER Inc., and its subsidiary C-FER Technologies Inc., ARC for cash consideration of $12.00. C-FER develops engineering innovations for the energy, transportation and manufacturing industry, and specializes in new processes for the offshore oil and gas industry.

Both acquisitions have been accounted for using the purchase method and the results of operations are reported in the Alberta Research Council Inc.'s consolidated financial statements from their respective effective dates.

Net assets acquired at fair value, are summarized as follows:
(In thousands)

	C-FER Inc.	Petroleum Recovery Institute
Assets acquired:		
Net working Capital	$ (1,041)	$ (951)
Capital Assets	4,346	743
Goodwill	-	208
	$ 3,305	$ -
Liabilities assumed:		
Long-term debt	$ 2,930	$ -
Promissionory note	375	-
	$ 3,305	$ -

Note 4 Changes in Operations and Programs (cont'd)

(b) Alberta Informatics Circle of Research Excellence Inc.
(In thousands)

The Alberta Informatics Circle of Research Excellence Inc. (iCORE) commenced operations on July 1, 1999 and was established on September 23, 1999 as a not-for-profit corporation in accordance with the Alberta Business Corporations Act, Chapter B - 15, Revised Statues of Alberta 1980, as amended. Order-in-Council 105/2000 authorized the acquisition of iCORE by the Alberta Science, Research and Technology Authority.

The mandate of iCORE is to attract and grow a critical mass of outstanding researchers in the fields of computer science, electrical and computer engineering, physics, mathematics and other information and communications technology related disciplines. iCORE invests in the highest calibre research scientists and leaders who work on fundamental and applied problems in information technology. It aims to fund iCORE Chairs at Alberta universities, around which world-class research teams will be developed.

On October 26, 1999, the Minister of Innovation & Science announced a three-year $30,000 commitment to iCORE. Annual funding of $10,000 was committed from existing science and research funding in the Alberta Science, Research and Technology Authority.

Note 5 Cash and Cash Equivalents

(a) Cash
(In thousands)

Cash consists primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term fixed income securities with a maximum term to maturity of five years. The securities are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Due to the short-term nature of the CCITF investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates.

Interest earned on the cash balances amounts to $155 has been credited to the CCITF account, and is reflected in these financial statements.

(b) Cash Equivalents

At March 31, cash equivalents consist of:

		2000			1999	
	Expiry Date	Exercise Price per Share	Number	March 31 Market Value per Share	Number	March 31 Market Value per Share
Option	May 5, 2001	$ 1.00	211,400	$ 7.30	211,400	$ 2.32
Option	Mar 31, 2003	2.00	55,000	8.30	75,000	4.65
Warrants	Jun 30, 2002	2.00	200,000	0.60	200,000	0.40

Note 5 Cash and Cash Equivalents (cont'd)

	2000		1999	
	Number	March 31 Market Value per Share	Number	March 31 Market Value per Share
Common shares (public company)	430,250	$ 0.60	-	$ -
Common shares (non-public company)	705,084	N/A	240,776	N/A
Common shares (non-public company)	400,000	N/A	400,000	N/A
Class A voting common shares	-	-	17,392	1.50

During the year $80,000 was invested in a private company in exchange for a 5.0% equity positions. The market value of the investment at March 31, 2000 is not reasonably determinable.

During fiscal 2000, 17,392 Class A voting, common shares of a public company were sold for $30,790. The shares were received in 1998 as consideration for contract work provided by ASRA to the company. These shares were originally recorded at $100,000 which represented the quoted market value of the shares at the time the contract work was completed. The shares were revalued at March 31, 1999 to $26,088 in order to reflect the realizable value.

During the year, 20,000 options were sold for $16.13 per option. The market value of this public company's common shares at March 31, 2000 was $8.30 (1999 - $4.65).

The options, warrants and common shares that were originally acquired as part of the consideration for granting of various licenses, are recorded at nominal values, except as otherwise noted.

Market risks exist with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

Note 6 Accounts Receivable

(In thousands)

	2000			1999
	Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value	Net Realizable Value
Commercial	$ 7,042	$ 296	$ 6,746	$ 4,812
Federal government	1,001		1,001	-
Alberta government department and agencies	3,327	-	3,327	2,849
	$ 11,370	$ 296	$ 11,074	$ 7,661

Accounts receivable are unsecured and non-interest bearing.

Note 7 Capital Assets

(In thousands)

		2000			1999
	Estimated Useful Life	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	Indefinite	$ 566	$ -	$ 566	$ -
Building	30 yrs	2,106	107	1,999	-
Equipment [1]	3-25 years	38,390	26,500	11,890	6,513
Computer Hardware/Software	3-5 yrs	4,271	3,621	650	368
Leasehold Improvements	25 yrs	6,478	2,332	4,146	3,846
		$ 51,811	$ 32,560	$ 19,251	$ 10,727

1 Equipment also includes furniture and fixtures.

Note 8 Loans/Notes Payable

(In thousands)

	2000
7.32% Bank of Montreal mortgage, payable in monthly instalments of $40,887 including interest, due October 1, 2001.	$ 2,580
Bank of Montreal term loan, at prime, payable in monthly instalments of $4,161 plus interest, due October 12, 2002.	130
	2,710
Less current portion	336
	$ 2,374

A demand debenture with a fixed charge over land, building and equipment, a floating charge over other assets, an assignment of insurance proceeds and a general security agreement registered under the Personal Property Security Act creating a floating charge over all property and assets, both present and future have been pledged as collateral for the mortgage and term loan with the Bank of Montreal.

The estimated repayments during the next five years and in total is as follows:

Year	Repayments
2001	$ 365
2002	389
2003	395
2004	392
2005	422
Thereafter	747
	$ 2,710

Note 9 Commitments

(In thousands)

(a) General Commitments

Commitments as at March 31, 2000 total $46,014 (1999 - nil) for approved projects in the following years:

Year	Committed
2001	$ 20,796
2002	13,705
2003	11,513
Thereafter	-
	$ 46,014

(b) Leases

Certain equipment is leased under operating leases that expire on various dates to 2004. The aggregate amount payable for the unexpired terms of these leases are as follows:

Year	Amount
2001	$ 110
2002	83
2003	68
2004	16
Thereafter	-
	$ 277

Note 10 Contingencies

(In thousands)

During fiscal 1999, a $4,079 claim naming the Alberta Research Council Inc. as the defendant. The claim relates to contamination produced from certain oil wells and arises out of a joint venture agreement to develop drilling fluid that would act as fracturing agent. A previous claim naming the Alberta Research Council Inc. as one of the defendants related to the same event was settled in the previous year. This matter has been referred to the insurers and the likelihood of loss or the amount of loss to the Alberta Research Council Inc. is not determinable at this time however, management has stated that any losses would be fully covered by insurance. Any settlement that may occur would be accounted for as a charge against current year's earning at the time of settlement.

During fiscal 2000, a statement of claim, relating to intellectual property ownership was filed by a former employee. Management feels that the claim is without merit, however, the likelihood of loss or the amount of the loss, if any, is not determinable at this time. Any settlement that may occur would be accounted for as a charge against current year's earnings at the time of settlement.

Note 11 Pensions

(In thousands)

The authority participates in the multiemployer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The authority also participates in the multiemployer Supplementary Retirement Plan for Public Service Managers established by the government effective July 1, 1999. The expense for these pension plans is equivalent to the annual contributions of $1,506 for the year ending March 31, 2000 (1999 - $1,380).

The increase from the prior year is due to the acquisitions of C-FER Inc. and Petroleum Recovery Institute.

At December 31, 1999, the Management Employees Pension Plan reported a surplus of $46,019 (1998 - $4,355) and the Public Service Pension Plan reported a surplus of $517,020 (1998 - $406,455). At December 31, 1999, the Supplementary Retirement Plan for Public Service Managers had a surplus of $33.

Note 12 Comparative Figures

Certain 1999 figures have been reclassified to conform to the 2000 presentation.

Note 13 Approval of Financial Statements

These financial statements were reviewed by the audit committee, and recommended to the board for approval.

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
EXPENSES DETAILED BY OBJECT
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 1

(in thousands)

	2000 Budget (a)	2000 Actual	1999 Actual
Salaries, wages and employee benefits	$ 34,058	$ 35,700	$ 29,284
Supplies and services	19,177	22,669	19,814
Grants	31,750	15,611	16,121
Financial transactions and other	-	78	114
Amortization of capital assets	2,413	2,957	2,533
Total expenses	$ 87,398	$ 77,015	$ 67,866

(a) Effective April 1, 1999, the Ministry of Innovation and Science was established as a result of a major reorganization and other transfers of responsibility announced by the government during the year. This budget amount has restated the 1999-2000 Government and Lottery Fund Estimates that were approved on April 29, 1999 for both the major reorganization and transfers of responsibility authorized during the year. The breakdown of expenses by object is based on management's best estimate.

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
OPERATING BUDGET
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 2

(In thousands)

	Alberta Science, Research and Technology Authority	Alberta Research Council Inc.	Alberta Informatics Circle of Research Excellence Inc.	Consolidated Adjustments	Consolidated ASRA
Revenues:					
Grant from Department of Innovation & Science	$ 60,330	$ -	$ -	$ -	$ 60,330
Alberta Research Council Inc.					
Commercial	-	19,651	-	-	19,651
Alberta Government departments and agencies	-	8,000	-	-	8,000
Contributions from:					
Alberta Science, Research and Technology Authority	-	27,080	10,000	(37,080)	-
Other revenue	-	-	-	-	-
	60,330	54,731	10,000	(37,080)	87,981
Expenses:					
Alberta Science and Research Authority Secretariat	1,000	-	-	-	1,000
Alberta Research Council Inc.	-	54,148	-	-	54,148
Strategic Research Initiatives	59,330	-	-	(37,080)	22,250
Alberta Informatics Circle of Research Excellence Inc.	-	-	10,000	-	10,000
	60,330	54,148	10,000	(37,080)	87,398
Valuation adjustments:					
Provision for vacation pay	-	-	-	-	-
	60,330	54,148	10,000	(37,080)	87,398
Net operating results	$ -	$ 583	$ -	$ -	$ 583

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
OPERATING ACTUALS
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 3

(in thousands)

	Alberta Science, Research and Technology Authority	Alberta Research Council Inc.	Alberta Informatics Circle of Research Excellence Inc.	Consolidated Adjustments	Consolidated ASRA
Revenues:					
Grant from the Department of Innovation & Science	$ 45,395	$ -	$ -	$ -	$ 45,395
Alberta Research Council Inc.					
Commercial	-	23,950	-	-	23,950
Alberta Government departments and agencies	-	7,835	-	(110)	7,725
Contributions from:					
Alberta Science, Research and Technology Authority	-	27,081	846	(27,927)	-
Other revenue	145	-	10	-	155
	45,540	58,866	856	(28,037)	77,225
Expenses:					
Alberta Science and Research Authority Secretariat	931	-	-	-	931
Alberta Research Council Inc.	-	58,741	-	666	59,407
Strategic Research Initiatives	44,609	-	-	(28,787)	15,822
Alberta Informatics Circle of Research Excellence Inc.	-	-	853	-	853
	45,540	58,741	853	(28,121)	77,013
Valuation adjustments:					
Provision for vacation pay	-	-	2	-	2
	45,540	58,741	855	(28,121)	77,015
Net operating results	$ -	$ 125	$ 1	$ 84	$ 210

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
COMPARISON OF EXPENSES BY ELEMENT TO AUTHORIZED BUDGET
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 4

(In thousands)

	2000 Authorized Budget	2000 Actual Expense	Unexpended (Over Expended) (a)
Alberta Science and Research Authority Secretariat	$ 1,000	$ 931	$ 69
Alberta Research Council Inc.	54,148	59,407	(5,259)
Strategic Research Initiatives	22,250	15,822	6,428
Alberta Informatics Circle of Research Excellence Inc.	10,000	855	9,145
	$ 87,398	$ 77,015	$ 10,383

(a) A strategic decision was made to allocate Alberta Science, Research and Technology Authority funding to increase investments in university research by the Department of Innovation and Science.

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
SALARY, HONORARIA AND BENEFITS DISCLOSURE
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 5

	2000			1999
	Salary [1]	Benefits & Allowances [2]	Total	Total
Chairman of Board	$ 25,315	$ -	$ 25,315	$ 15,752
Board Members	16,969	-	16,969	12,647
President and Chief Executive Officer[3]	-	-	-	-

NOTES:

(1) Salary includes regular base pay, bonuses, overtime, lump sum payments and honoraria. Board members of the Alberta Science, Research and Technology Authority receive honoraria. The financial statements of the Alberta Research Council Inc. and the Alberta Informatics Circle of Research Excellence Inc. disclose the honoraria paid to their respective board members.

(2) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental death and dismemberment insurance, short and long-term disability plans, professional memberships and tuition fees.

(3) The Deputy Minister of Innovation and Science is the President and Chief Executive Officer for the Alberta Science, Research and Technology Authority and is included in the salary and benefits disclosure schedule for the Department of Innovation and Science.

ALBERTA SCIENCE, RESEARCH AND TECHNOLOGY AUTHORITY
CONSOLIDATED SCHEDULE TO FINANCIAL STATEMENTS
RELATED PARTY TRANSACTIONS
FOR THE YEAR ENDED MARCH 31, 2000

Schedule 6

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in the Department.

ASRA and its employees paid certain taxes and fees set by regulation for permits, license and other charges.

These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

ASRA had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

(In thousands)

	Entities in the Ministry		Other Entities	
	2000	1999	2000	1999
Revenues:				
Grant from Department of Innovation & Science	$ 45,395	$ 42,510	$ -	$ -
Grants to ASRA from:				
Alberta Agricultural Research Institute	2,470	2,657	-	-
Alberta Oil Sands Technolgy and Research Authority	1,072	1,360	-	-
Department of Innovation & Science	478	-	-	-
Other Ministries	-	-	3,172	3,606
	$ 49,415	$ 46,527	$ 3,172	$ 3,606
Expenses:				
Charges from Infrastructure	$ -	$ -	$ 74	$ 109
Other Ministries	-	-	3,172	3,606
	$ -	$ -	$ 3,246	$ 3,715

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements.

	Entities in the Ministry		Other Entities	
	2000	1999	2000	1999
Revenues (notional):	$ -	$ -	$ -	$ -
Expenses (notional):				
Accommodation*	$ -	$ -	$ 11,873	$ 9,591

Accommodation costs paid by Alberta Infrastructure include building maintenance, grants in lieu of taxes, lease costs, non capital project expenditures and capital amortization.

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2000

Auditors' Report

Consolidated Balance Sheet

Consolidated Statement of Revenue and Expenditure and Operating Equity

Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements

AUDITOR'S REPORT

To the Board of Directors of the Alberta Research Council Inc.

I have audited the consolidated balance sheet of the Alberta Research Council Inc. as at March 31, 2000 and the consolidated statements of revenue and expenditure and operating equity and cash flows for the year then ended. These financial statements are the responsibility of the Research Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Research Council as at March 31, 2000 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting principles.

Original signed by
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
April 28, 2000

ALBERTA RESEARCH COUNCIL INC.
CONSOLIDATED BALANCE SHEET
AS AT MARCH 31, 2000

ASSETS	2000 $	1999 $
Current:		
Cash and cash equivalents	8,947	13,273
Accounts receivable (Note 4)	9,993	6,173
Accrued income receivable	1,014	1,469
Prepaid expenses	665	304
	20,619	21,219
Capital:		
Assets (Note 5)	19,253	10,727
	39,872	31,946
LIABILITIES AND EQUITY		
Current:		
Accounts payable and accrued liabilities	11,167	10,578
Unearned contract revenue	5,641	1,419
Promissory note	281	-
Current portion of long-term debt (Note 6)	336	-
	17,425	11,997
Long-term debt:		
Long-term debt (Note 6)	2,374	-
	19,799	11,997
Equity:		
Operating	20,073	19,949
	39,872	31,946

The accompanying notes and schedules are part of these financial statements.

ALBERTA RESEARCH COUNCIL INC.
CONSOLIDATED STATEMENT OF REVENUE AND EXPENDITURE AND OPERATING EQUITY
FOR THE YEAR ENDED MARCH 31, 2000

	2000		1999
	Budget $ (Note 14)	Actual $	Actual $
REVENUE			
Investment from the Province of Alberta:			
General revenues (Note 11)	27,081	27,081	25,363
Indirect revenues (Note 11)	11,000	11,873	9,591
Contract revenue:			
Commercial	25,774	22,244	16,921
Alberta government departments and agencies	8,067	7,835	7,623
Royalties, licensing fees and product sales	1,350	1,706	1,716
	73,272	70,739	61,214
EXPENDITURE			
Accommodation costs (Note 11)	11,000	11,873	9,591
Amortization	3,455	2,957	2,610
Computing supplies and services	1,974	1,706	2,214
Insurance	281	300	249
Legal and patent	789	1,183	1,034
Maintenance and rental	587	581	393
Materials and supplies	6,861	5,654	5,455
Other expenses	2,370	1,872	2,131
Professional, technical and labour services	5,118	6,542	4,739
Salaries, wages and benefits	37,596	35,476	30,491
Telephone	551	432	509
Travel and hospitality	2,153	1,907	1,516
Interest	200	132	-
	72,935	70,615	60,932
Net revenue for the year	337	124	282
Operating equity at beginning of year	19,949	19,949	19,667
Operating equity at end of year	20,286	20,073	19,949

ALBERTA RESEARCH COUNCIL INC.
CONSOLIDATED STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED MARCH 31, 2000

	2000 $	1999 $
Operating activities:		
Net revenue for the year	124	282
Items not affecting cash:		
Indirect revenue	(11,873)	(9,591)
Accommodation costs	11,873	9,591
Amortization	2,957	2,610
Write off of goodwill on acquisitions	208	-
Net change in non-cash balances (Note 9)	1,085	2,434
Net cash provided by operating activities	4,374	5,326
Investing activities:		
Capital asset additions	(6,415)	(2,426)
Proceeds on disposal of capital assets	21	23
Net working capital acquired on acquisitions	(1,992)	-
Net cash used by investing activities	(8,386)	(2,403)
Financing activities:		
Repayment of long-term debt	(220)	-
Repayment of promissory note	(94)	-
Net cash used in financing activities	(314)	-
(Decrease) increase in cash	(4,326)	2,923
Cash and cash equivalents at beginning of year	13,273	10,350
Cash and cash equivalents at end of year	8,947	13,273

ALBERTA RESEARCH COUNCIL INC.

CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2000

(all tabular amounts in thousands of dollars, except Note12)

Note 1 Authority and Purpose

The Alberta Research Council Inc. is incorporated under the Alberta Corporations Act (Alberta). During the prior year, the Alberta Research Council operated under the authority of the Alberta Research Council Act, Chapter A-35.1, Statutes of Alberta 1981, which was repealed April 1, 1999. The Alberta Research Council Inc. ("Research Council") assumes the assets and undertakings of the Alberta Research Council and continues as a wholly owned subsidiary of the Alberta Science, Research and Technology Authority.

The Authority and its wholly owned subsidiaries are exempt from assessment or taxation for municipal or provincial purposes.

In partnership with global leaders, the Research Council advances the economy and well being of Alberta by providing technology and innovation to meet current and emerging needs of industry and government.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgement. Actual results could differ from those estimates. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Research Council and its wholly owned subsidiaries

- C-FER Technologies (1999) Inc. (formerly C-FER Inc.)
- 764330 Alberta Inc. (formerly C-FER Technologies Inc.)
- Petroleum Recovery Institute
- PRI Solutions Inc.

(b) Amortization

Capital assets are amortized on a straight-line basis over their estimated useful lives using the following annual rates:

Leasehold improvements	Twenty-five years
Equipment	Three to twenty years
Furniture and fixtures	Five years
Computer equipment and software	Three years
Building	Thirty years

Note 2 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

(c) Patents and other Intangible Assets

Expenditures for patents owned by the Research Council as a result of research activity are not capitalized due to the uncertain value of benefits which may accrue to the Research Council.

Expenditures on the acquisition or development of other intangible assets including intellectual capital are not capitalized as there currently is not an acceptable methodology for measuring the value of future benefits accruing to the Research Council.

(d) Revenue Recognition

Provincial investment funds, general revenues, are recognized as revenue in the year approved. Services and materials that are contributed to the Research Council are recognized as indirect revenues in the year they are received, provided that the fair value of the services and materials can be reasonably estimated and the materials and services are used in the normal course of operations.

Contract revenue is recognized as costs are incurred, up to the contract maximum and in accordance with contracted cost-sharing ratios. The Research Council makes full provision for all known or estimated losses on uncompleted contracts as soon as they can reasonably be estimated.

Royalties, licensing fee and product sales revenue is recognized when the amount can be reasonably estimated and there is reasonable assurance of collectability of proceeds.

(e) Pension

The Research Council participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

(f) Change in Accounting Policy

Effective April 1, 1999, the Research Council changed the way it accounts for its participation in multi-employer pension plans to a defined contribution basis. This change in accounting policy has been applied retroactively with restatement of comparative amounts. As a result of this change, opening operating equity as of April 1, 1998, has increased by $1,678,775. For the year ended March 31, 1999, the pension liability has decreased by $1,203,775, and the salaries, wages and benefits expense has increased by $475,000.

Note 3 Acquisitions

During fiscal 2000, the Research Council made the following acquisitions:

- Effective April 1, 1999, an Order in Council approved the transfer of the management and control of Petroleum Recovery Institute, and its subsidiary PRI Solutions Inc., to the Research Council for consideration of $nil. Petroleum Recovery Institute is a consortium-funded, research and technology development company supporting the needs of the oil industry.

- Effective July 31, 1999, an Order in Council approved the acquisition of all outstanding shares of C-FER Inc., and its subsidiary C-FER Technologies Inc., by the Research Council for cash consideration of $12. C-FER develops engineering innovations for the energy, transportation and manufacturing industry, and specializes in new processes for the offshore oil and gas industry.

These acquisitions have been accounted for using the purchase method and the results of operations have been included with those of the Research Council from their effective date of acquisition.

ALBERTA RESEARCH COUNCIL INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2000

(in thousands of dollars)

Note 3 Acquisitions (cont'd)

The net assests acquired from these acquisitions, at fair value, are summarized as follows:

	C-FER Inc. $	Petroleum Recovery Institute $
Assets acquired:		
Net working capital	(1,041)	(951)
Capital assets	4,346	743
Goodwill	-	208
	3,305	-
Liabilities assumed:		
Long-term debt	(2,930)	-
Promissory note	(375)	-
	(3,305)	-
Net assets acquired at fair value	-	-
Consideration:		
Cash	-	-

Note 4 Accounts Receivable

	2000 $	1999 $
Commercial	6,714	3,781
Alberta government departments and agencies	3,279	2,392
	9,993	6,173

ALBERTA RESEARCH COUNCIL INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2000

(in thousands of dollars)

Note 5 Capital Assets

	2000			1999
	Cost $	Accumulated amortization $	Net $	Net $
Land	566	-	566	-
Building	2,106	107	1,999	-
Leasehold improvements	6,478	2,332	4,146	3,846
Equipment	37,664	25,974	11,690	6,488
Furniture and fixtures	726	524	202	25
Computer equipment and software	4,271	3,621	650	368
	51,811	32,558	19,253	10,727

Note 6 Long-term Debt

	$
7.32% Bank of Montreal mortgage, payable in monthly instalments of $40,887 including interest, due October 1, 2001	2,580
Bank of Montreal term loan, at prime, payable in monthly instalments of $4,161 plus interest, due October 12, 2002	130
	2,710
Less: Current portion	336
	2,374

Note 6 Long-term Debt (cont'd)

A demand debenture with a fixed charge over land, building and equipment, a floating charge over other assets, an assignment of insurance proceeds and a general security agreement registered under the Personal Property Security Act creating a floating charge over all property and assets, both present and future have been pledged as collateral for the mortgage and term loan.

Estimated principal repayments during the next five years and in total are as follows:

	$
2001	365
2002	389
2003	395
2004	392
2005	422
Thereafter	747
	2,710

Note 7 Contingencies

(a) During fiscal 1999, the Research Council was made aware of a $4,079,174 claim naming the Research Council as the defendant. The claim relates to contamination produced from certain oil wells and arises out of a joint venture agreement to develop drilling fluid that would act as fracturing agent. A previous claim naming the Research Council as one of the defendants related to the same event was settled in the previous year. This matter has been referred to the insurers and the likelihood of loss or the amount of loss to the Research Council is not determinable at this time however, management has stated that any losses would be fully covered by insurance. Any settlement that may occur would be accounted for as a charge against current year's earning at the time of settlement.

(b) During fiscal 2000, a statement of claim, relating to intellectual property ownership was filed by a former employee. Management feels that the claim is without merit, however, the likelihood of loss or the amount of the loss, if any, is not determinable at this time. Any settlement that may occur would be accounted for as a charge against current year's earnings at the time of settlement.

Note 8 Obligation Under Operating Leases

Future minimum lease payments requirements for office equipment and vehicles over the next four years, and in total are as follows:

	$
Year ending March 31, 2001	110
2002	83
2003	68
2004	16
	277

Note 9 Net Change in Non-cash Balances

	2000	1999
	$	$
Accounts receivable	(3,820)	976)
Accrued income receivable	455	710
Prepaid expenses	(361)	(98)
Accounts payable and accrued liabilities	589	1,648
Unearned contract revenue	4,222	250
	1,085	2,434

Note 10 Pension Plan

The Research Council participates in the multi-employers pension plans, Management Employees Pension Plan and Public Service Pension Plan and two Defined Contribution Plans. The expense for these pension plans is equivalent to the annual contributions of $1,499,753 for the year ending March 31, 2000 (1999 - $1,256,938).

The increase from the prior year is due to the acquisitions of C-FER Inc. and Petroleum Recovery Institute.

Note 11 Related Party Transactions

Accommodation and Amortization Expenditures

The premises occupied by the Research Council, as well as some office furniture and tenant improvements, have been provided by the Province of Alberta at no cost.

	2000	1999
	$	$
Indirect Revenue	11,873	9,591
Accommodation expenditure:		
Building maintenance	4,413	4,511
Grans in lieu of taxes	2,105	2,559
Lease costs	1,938	155
Non-capital project expenditures	1,287	650
Capital amortization	2,130	1,716
	11,873	9,591

During the year, the Research Council received $27,081,000 (1999 - $25,363,000) in general revenues from the Alberta Science, Research and Technology Authority.

During the year, contract revenue from Alberta government departments and agencies was $7,835,109 (1999 - $7,622,855).

Note 12 Salaries and Benefits

	2000			1999
	Salary (1) $	Benefits and Allowances (2) $	Total $	Total $
Chairman of the Board	15,000	160	15,160	15,135
Board Members	4,297	-	4,297	5,445
Chief Executive Officer	135,594	40,907	176,501	152,367
Executive/Vice-Presidents				
Chief Financial Officer	104,247	17,807	122,054	118,455
Vice-President, Forest Processes and Technologies	99,454	20,415	119,869	116,317
Vice-President, Agriculture, Bioscience and Health	112,356	22,181	134,537	128,052
Vice-President, Industrial Processes and Services	103,487	13,903	117,390	-
Vice-President, Energy Technologies (3)	102,500	23,306	125,806	-

(1) Salary includes regular pay, bonuses and lump sum payments.

(2) Benefits and allowances includes the employer's share of the cost of pension, Canada Pension Plan, Employment Insurance, dental, major medical, basic life insurance, short and long-term disability, employee allocation accounts and vacation accrual. It also includes car allowance, payments made in lieu of benefits, membership fees and living allowance.

(3) Effective August 1, 1999.

Note 13 Financial Instruments

Financial instruments consist of accounts receivable and accrued income receivable which will result in future cash receipts as well as accounts payable and accrued liabilities, promissory note and long-term debt which will result in future cash outlays.

Limitations

Fair values estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement, and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Cash, accounts receivable, accrued income receivable, accounts payable and accrued liabilities

The fair values of cash, accounts receivable, accrued income receivable, accounts payable and accrued liabilities approximate their carrying values due to their short-terms to maturity.

Long-term debt and promissory note payable

The fair values of long-term debt and the promissory note payable approximate their carrying values due to the fact that their interest rates approximate the market rates at March 31, 2000.

Note 13 Financial Instruments (cont'd)

Cash equivalents

At March 31, 2000, the Research Council owns the following:

(a) options, which expire May 5, 2001, to acquire 211,400 (1999 - 211,400) common shares of a public company exercisable at $1 per common share. The market value of this public company's common shares at March 31, 2000 was $7.30 (1999 - $2.32) per share. During the prior year, the Research Council agreed to share royalty and licensing revenue related to Chembiomed Ltd. technology. One-half of future revenues from identified licensing agreements are designated for collaborative carbohydrate research projects by the Research Council and the University of Alberta.

One-half of the exercised options to acquire the above noted 211,400 common shares are designated for collaborative carbohydrate research projects, as part of this agreement.

(b) options, which expire March 31, 2003, to acquire 55,000 (1999 - 75,000) common shares of a public company exercisable at $2 per common share. During the year, 20,000 options were sold for $16.13 per option. The market value of this public company's common shares at March 31, 2000 was $8.30 (1999 - $4.65).

(c) warrants, which expire June 30, 2002, to acquire 200,000 (1999 - 200,000) common shares of a public company exercisable at $2 per common share. The market value of this public company's common shares at March 31, 2000 was $0.60 (1999 - $0.40).

(d) 705,084 (1999 - 240,776) common shares of a non-publicly traded company. The market value of this company's common shares at March 31, 2000 is not reasonably determinable.

(e) 400,000 (1999 - 400,000) common shares of a non-publicly traded company. The market value of this company's common shares at March 31, 2000 is not reasonably determined.

(f) 430,250 (1999 - nil) common shares of a public company. The marketable securities are included in cash and cash equivalents at $150,588. The quoted market value of this public company's common shares at March 31, 2000 was $0.60 per share.

(g) during April 1999, the Research Council invested $80,000 in a private company in exchange for a 5% equity position. The market value of this company's shares at March 31, 2000 is not reasonably determinable.

The options, warrants and common shares which were originally acquired as part of the consideration for granting of various licenses, are recorded at nominal values, except otherwise noted.

The Research Council is subject to market risk with these stock options and warrants. As a result, the value of these financial instruments will fluctuate as a result of changes in market prices.

During fiscal 2000, the Research Council sold 17,392 Class A voting, common shares of a public company for $30,790. The shares were received in 1998 as consideration for contract work provided by the Research Council to the company. These marketable securities were originally recorded at $100,000 which represented the quoted market value of the shares at the time the contract work was completed. The marketable securities were revalued at March 31, 1999 to $26,088 in order to reflect the realizable value.

Note 14 Budget

The 2000 budget was approved by the Board of Directors on March 16, 1999.

Note 15 Approval of Financial Statements

These financial statements were reviewed by management and the audit committee, and recommended to the Board for approval.

Note 16 Comparative figures

The comparative figures have been reclassified where necessary to conform with the current year's presentation

ALBERTA INFORMATICS CIRCLE OF RESEARCH EXCELLENCE INC.

FINANCIAL STATEMENTS

MARCH 31, 2000

Auditor's Report

Statement of Operations

Statement of Changes in Financial Position

Statement of Financial Position

Notes to the Financial Statements

Schedule of Salary and Benefits Disclosure

Schedule of Related Party Transactions

AUDITOR'S REPORT

To the Board of Directors of the Alberta
Informatics Circle of Research Excellence

I have audited the statement of financial position of the Alberta Informatics Circle of Research Excellence as at March 31, 2000 and the statements of operations and changes in financial position for the period then ended. These financial statements are the responsibility of the entity's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Alberta Informatics Circle of Research Excellence as at March 31, 2000 and the results of its operations and changes in financial position for the period then ended in accordance with generally accepted accounting principles.

Original signed by
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
May 24, 2000

ALBERTA INFORMATICS CIRCLE OF RESEARCH EXCELLENCE INC.
STATEMENT OF OPERATIONS
FOR THE PERIOD JULY 1, 1999 TO MARCH 31, 2000

	(In thousands) 2000 Budget	2000 Actual
Revenues		
Contribution from Alberta Science, Research & Technology Authority	$ 10,000	$ 846
Interest income (Note 4)	-	10
	10,000	856
Expenses		
Salaries, wages and employee benefits	250	260
Supplies and services	250	234
Grants	9,500	361
	10,000	855
Net operating results	$ -	$ 1

The accompanying notes and schedules are part of these financial statements.

ALBERTA INFORMATICS CIRCLE OF RESEARCH EXCELLENCE INC.
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE PERIOD JULY 1, 1999 TO MARCH 31, 2000

	(In thousands) 2000
Operating transactions	
Net operating results	$ 1
Increase in accounts receivable	(66)
Increase in accounts payable	71
Net cash provided by continuing operations	6
Cash, beginning of period	-
Cash, end of period	$ 6

The accompanying notes and schedules are part of these financial statements.

ALBERTA INFORMATICS CIRCLE OF RESEARCH EXCELLENCE INC.
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2000

	(In thousands) 2000
Assets	
Cash (Note 4)	$ 6
Accounts receivable (Note 5)	66
	72
Liabilities	
Accounts payable and accrued liabilities	71
Net Assets	
Net assets at beginning of period	-
Net operating results	1
Net assets at end of period	1
	$ 72

The accompanying notes and schedules are part of these financial statements.

ALBERTA INFORMATICS CIRCLE OF RESEARCH EXCELLENCE INC. (iCORE)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD JULY 1, 1999 TO MARCH 31, 2000

Note 1 Authority

The Alberta Informatics Circle of Research Excellence Inc. (iCORE) commenced operations on July 1, 1999 and was established on September 23, 1999 as a not-for-profit corporation in accordance with the Alberta Business Corporations Act, Chapter B - 15, Revised Statues of Alberta 1980, as amended. Order-in-Council 105/2000 authorized the acquisition of iCORE by the Alberta Science, Research and Technology Authority.

Note 2 Purpose

The mandate of iCORE is to attract and grow a critical mass of outstanding researchers in the fields of computer science, electrical and computer engineering, physics, mathematics and other information and communications technology related disciplines. iCORE invests in the highest caliber research scientists and leaders who work on fundamental and applied problems in information technology. It aims to fund iCORE Chairs at Alberta universities, around which world-class research teams will be developed.

Note 3 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with the following accounting policies that have been established by government for all Ministries. The recommendations of the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants are the primary source for the disclosed basis of accounting. Recommendations of the Accounting Standards Board of the Canadian Institute of Chartered Accountants, other authoritative pronouncements, accounting literature, and published financial statements relating to either the public sector or analogous situations in the private sector are used to supplement the recommendations of the Public Sector Accounting Board where it is considered appropriate.

(a) Reporting Entity

The reporting entity is iCORE, which is a wholly owned subsidiary of the Alberta Science, Research and Technology Authority which is part of the Ministry of Innovation and Science for which the Minister of Innovation and Science is accountable. Other entities reporting to the Minister are the Department of Innovation and Science, the Alberta Science, Research and Technology Authority, the Alberta Agricultural Research Institute, the Alberta Oil Sands Technology and Research Authority and the Alberta Research Council Inc. and it's subsidiaries. The activities of these organizations are not included in these financial statements. The financial statements for the individual entities provide more detailed information about the operations of each entity.

Since significant financial transactions of the Ministry are reported outside of iCORE financial statements, the Ministry financial statements provide a more comprehensive accounting of the financial position and results of the Ministry's operations. The Ministry Annual Report provides a more complete picture of the responsibilities for which the Minister is accountable.

Note 3 Summary of Significant Accounting Policies and Reporting Practices (cont'd)

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual method of accounting. Cash received for which goods or services have not been provided by year-end is recorded as unearned revenue.

Expenses

Expenses represent the costs of resources consumed during the year for operations.

Grants are recorded as expenses when authorized and when all eligibility criteria have been satisfied.

Valuation Adjustments

Valuation adjustments include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay, guarantees and indemnities.

Assets

Financial assets of iCORE include financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Liabilities

Liabilities represent all financial claims payable by iCORE at fiscal year end.

Net Assets

Net Assets represent the difference between the value of assets held by iCORE and its liabilities.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable, advances, accounts payable and accrued liabilities, and unearned revenues are estimated to approximate their book values.

Note 4 Cash

(In thousands)

Cash consists solely of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is invested primarily in short-term and mid-term fixed income securities with a maximum term to maturity of five years. The securities are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Due to the short-term nature of the CCITF investments, the carrying value approximates fair value. Interest is earned on the daily cash balance at the average rate of earnings of the CCITF, which varies depending on prevailing market interest rates.

Interest earned on the cash balance in the amount of $10 is credited to iCORE's CCITF account, and is reflected in these financial statements.

Note 5 Accounts Receivable

(In thousands)

2000		
Gross Amount	Allowance for Doubtful Accounts	Net Realizable Value
$ 66	$ -	$ 66

Accounts receivable are unsecured and non-interest bearing and are from Alberta Government departments ($47) and the Federal Government ($19).

Note 6 Commitments

(In thousands)

iCORE has a research grant commitment as at March 31, 2000 totalling $600. The commitment for 2001 is $300 and in 2002 is $300.

Note 7 Budget

On October 26, 1999 the Minister of Innovation and Science announced a three year $30 million commitment to iCORE. Annual funding of $10 million was committed from existing science and research funding in the Alberta Science, Research and Technology Authority.

Note 8 Approval of Financial Statements

These financial statements were reviewed by management and recommended to the board for approval.

ALBERTA INFORMATICS CIRCLE OF RESEARCH EXCELLENCE INC.
SCHEDULE TO FINANCIAL STATEMENTS
SALARY AND BENEFITS DISCLOSURE
FOR THE PERIOD JULY 1, 1999 TO MARCH 31, 2000

Schedule 1

	2000		
	Salary (1)	Benefits & Allowances (2)	Total
Chairman of Board[3]	$ 21,839	$ -	$ 21,839
President and Chief Executive Officer[4]	149,100	-	149,100
Director of Programs[5]	57,377	4,666	62,043

NOTES:

(1) Salary includes regular base pay, bonuses, overtime and lump sum payments.

(2) Employer's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, vision coverage, out of country medical benefits, group life insurance, accidental death and dismemberment insurance, short and long-term disability plans, professional memberships and tuition fees.

(3) The Chairman of the Board is seconded part-time from the University of Alberta and payment is made to the University of Alberta. The contract began September 1, 1999.

(4) The salary amount for the President and Chief Executive Officer includes $54,380 paid to Unger/Huntsinger and Associates for a contract that began July 1, 1999, and $94,720 paid to the University of Calgary for full-time secondment beginning September 23, 1999. The payment to the University of Calgary includes $32,000 for sabbatical reimbursement.

(5) The Director of Programs was sub-contracted half-time from the Alberta Research Council Inc. for the period August 1, 1999 to November 30, 1999 and started as a full-time Alberta Informatics Circle of Research Excellence Inc. employee December 1, 1999.

ALBERTA INFORMATICS CIRCLE OF RESEARCH EXCELLENCE INC.
SCHEDULE TO FINANCIAL STATEMENTS
RELATED PARTY TRANSACTIONS
FOR THE PERIOD JULY 1, 1999 TO MARCH 31, 2000

Schedule 2

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management in the Department.

Alberta Informatics Circle of Research Excellence Inc. and its employees paid certain taxes and fees set by regulation for permits, license and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

Alberta Informatics Circle of Research Excellence Inc. had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties:

	(In thousands) Entities in the Ministry	Other Entities
	2000	2000
Revenues:		
Grants from the Alberta Science and Research Authority	$ 846	$ -
Expenses:		
Grant to Alberta Research Council (ARC)	$ 12	$ -

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2000

Auditor's Report

Consolidated Statement of Financial Position

Consolidated Statement of Operations

Consolidated Statement of Changes in Net Assets

Consolidated Statement of Cash Flows

Notes to the Consolidated Financial Statements

AUDITOR'S REPORT

To the Trustees of the Alberta Heritage Foundation for Medical Research

I have audited the consolidated statement of financial position of the Alberta Heritage Foundation for Medical Research as at March 31, 2000 and the consolidated statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Original signed by

Peter Valentine, FCA

Auditor General

Edmonton, Alberta

June 23, 2000

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

MARCH 31, 2000

(thousands of dollars)

	2000	1999
ASSETS		
Cash	$ 3,593	$ 3,434
Restricted cash	2,581	5,649
Accounts receivable	26	22
Advances and prepaid expenses	60	40
Capital assets (Note 4)	447	586
Deferred pension costs (Note 5)	53	73
	$ 6,760	$ 9,804
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$ 1,785	$ 2,138
Accrued retirement allowance (Note 5)	221	184
Deferred lease inducement	21	40
Capital lease obligation	-	55
Deferred contributions (Note 6)	4,867	5,948
	6,894	8,365
Net (liabilities) assets (Note 7)	(134)	1,439
	$ 6,760	$ 9,804

The accompanying notes are part of these financial statements.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED MARCH 31, 2000

(thousands of dollars)

	OPERATIONS	OTHER PROGRAMS (Note 8)	TOTAL	1999
Revenue				
Transfers from Endowment Fund (Note 3)	$ 39,500	$ -	$ 39,500	$ 36,000
Amortization of deferred contributions (Note 6)	-	4,039	4,039	5,287
Donations (Note 8)	-	1	1	-
Interest	276	7	283	258
Recoveries on Technology Commercialization (Note 9)	15	-	15	12
Other	1	-	1	8
	39,792	4,047	43,839	41,565
Expenses				
Grants and awards				
Personnel	20,018	-	20,018	18,586
Training	5,951	-	5,951	5,649
Health research	4,977	-	4,977	3,377
Other	7,412	2,476	9,888	9,310
	38,358	2,476	40,834	36,922
Program Operation				
Salaries and benefits	-	193	193	167
Advisory and peer review	490	236	726	607
SEARCH program	203	-	203	438
HYRS program	38	-	38	-
Other expenses	-	346	346	210
Research contracts	-	10	10	(2)
Other initiatives	20	-	20	35
	751	785	1,536	1,455
Administration				
Office administration	1,718	784	2,502	2,340
Communication and education	304	-	304	224
Planning and governance	236	-	236	288
	2,258	784	3,042	2,852
	41,367	4,045	45,412	41,229
(Deficiency) excess of revenue over expense	$ (1,575)	$ 2	$ (1,573)	$ 336

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31, 2000

(thousands of dollars)

	2000			1999
	Invested in Capital Assets	Unrestricted	Total	Total
Balance at beginning of year	$ 547	$ 892	$ 1,439	$ 1,103
Excess (deficiency) of revenue over expense	-	(1,573)	(1,573)	336
Purchase of capital assets	92	(92)	-	-
Disposal of capital assets	(31)	31	-	-
Amortization of capital assets	(182)	182	-	-
Repayment of capital lease obligation	55	(55)	-	-
Balance at end of year	$ 481	$ (615)	$ (134)	$ 1,439

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2000

(thousands of dollars)

	2000	1999
Operating activities:		
Cash received from operations	$ 39,800	$ 36,278
Cash received from Medical Innovations Program (Note 6)	258	331
Cash received from Health Research Collaboration (Note 6)	2,700	2,700
Cash paid for grants and awards	(41,295)	(36,061)
Cash paid for program operation	(1,536)	(1,455)
Cash paid for administration	(2,698)	(2,579)
Net cash used in operating activities	(2,771)	(786)
Investing activities:		
Cash paid for purchase of capital assets	(92)	(126)
Proceeds on disposal of capital assets	9	1
Net cash used in investing activities	(83)	(125)
Financing activities:		
Cash paid for capital lease obligation repayments	(55)	(61)
Net cash used in financing activities	(55)	(61)
Net decrease in cash for the year	(2,909)	(972)
Cash at beginning of year	9,083	10,055
Cash at end of year	$ 6,174	$ 9,083
Cash	$ 3,593	$ 3,434
Restricted cash	2,581	5,649
	$ 6,174	$ 9,083

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2000

Note 1 Authority and Purpose

The Alberta Heritage Foundation for Medical Research (the Foundation) operates under the authority of the Alberta Heritage Foundation for Medical Research Act, Chapter A-26, Revised Statutes of Alberta 1980, as amended. The Alberta Heritage Foundation for Medical Research operates as a tax exempt body.

The Foundation supports and promotes research in Alberta to improve health and thereby the quality of life of Albertans and people throughout the world.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These consolidated financial statements include the accounts of the Alberta Foundation for Health Research, which operates under The Alberta Companies Act and is a registered charitable organization for income tax purposes. The Alberta Foundation for Health Research activities are directed to the support and advancement of the Foundation.

(b) Capital Assets and Amortization

Capital assets are recorded at cost less accumulated amortization. Capital assets, except for leasehold improvements, are amortized on a straight-line basis over their estimated useful lives at the following annual rates:

Furniture	10%
Office equipment	20%
Computer equipment	33%
Computer equipment under capital lease	33%

Leasehold improvements are amortized on a straight-line basis over the term of the lease.

(c) Cash and Restricted Cash

Cash and restricted cash consist of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates.

Restricted cash represents unspent contributions that are subject to externally imposed restrictions related to the Medical Innovation Program.

(d) Fair Value of Financial Instruments

Short-term instruments are valued at their carrying amounts included on the consolidated statements of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash, restricted cash, accounts receivable, advances, accounts payable and accrued liabilities, accrued retirement allowance, deferred lease inducement and capital lease obligation.

Note 2 Significant Accounting Policies and Reporting Practices (Cont'd)

(e) Revenue Recognition

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions received for future expenses are deferred until that future period when they are transferred to revenue.

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Recoveries on technology commercialization projects are recognized when performance requirements are satisfied, the amount to be received can be reasonably estimated and collection is reasonably assured.

(f) Grants and Awards Expense

Grants and awards approved by the Trustees of the Foundation are recorded as expenses when the awardee has been notified of the amount of the award and all terms and conditions of eligibility for payment of the award have been met.

(g) Pension

Pension Expense

Salaries and benefits include employer pension plan contributions made during the year, the amortization of experience gains and losses, and the increase in accrued retirement allowance.

Deferred Pension Costs

Deferred pension costs represent the cumulative difference between the amounts expensed and the funding contributions required under the Foundation's pension plan.

Accrued Retirement Allowance

Accrued retirement allowance consists of the unfunded liability of retirement allowances.

(h) Lease Inducement

The lease inducement, a cash payment received by the Foundation on the lease for office premises, has been deferred and is accounted for as a reduction of office rental expense on a straight-line basis over the term of the lease.

Note 3 Alberta Heritage Foundation for Medical Research Endowment Fund

The Endowment Fund operates pursuant to the Alberta Heritage Foundation for Medical Research Act and consists of an initial endowment of $300,000,000 from the Alberta Heritage Savings Trust Fund together with cumulative earnings thereon, less cumulative transfers to the Foundation.

Transfers to the Foundation are available at the request of the Trustees of the Foundation provided that such transfers do not result in the net assets of the Endowment Fund, valued at cost, being less than the initial endowment.

At March 31, 2000, the net assets of the Endowment Fund valued at cost were approximately $1.023 billion (1999 $887 million) and valued at market were approximately $1.122 billion (1999 $973 million).

Note 4 Capital Assets

	2000			1999
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		(thousands of dollars)		
Furniture and equipment	$ 366	$ 217	$ 149	$ 142
Computer hardware and software	966	702	264	360
Computer equipment under capital lease	-	-	-	30
Leasehold improvements	123	94	29	53
Assets under construction	5	-	5	1
	$ 1,460	$ 1,013	$ 447	$ 586

Note 5 Pension Plan

The Foundation's pension plan is a defined benefit plan. Benefits are based on years of service and average salary in the final years of employment.

Pension expense includes the amortization of experience gains and losses. These amounts are being amortized on a straight-line basis over periods from 14 to 21 years. The cumulative difference between the amounts expensed and the funding contributions required is shown on the statement of financial position as deferred pension costs of $52,600 (1999 $73,400).

The Plan's status as at March 31, 2000 is as follows:

	2000	1999
	(thousands of dollars)	
Assets	$ 1,886	$ 1,514
Less actuarial value of accrued pension benefits	1,282	1,155
Excess balance	$ 604	$ 359

The value of accrued pension benefits was determined by an actuarial valuation as at March 31, 1999 extrapolated to March 31, 2000. The actuarial valuation was determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on the Foundation's best estimate of future events. The Plan's future experience will inevitably vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will be amortized over the expected average remaining service life of the employee group.

Retirement Allowance

The unfunded liability at March 31, 2000 of $220,700 (1999 $183,500) has been accrued and $37,200 was expensed in 1999/2000. This liability was determined by an actuary using the same assumptions that were used to value the pension plan.

Note 6 Deferred Contributions

Deferred contributions represent unspent resources externally restricted under the Medical Innovation Program and the Health Research Collaboration Agreement. Amounts are amortized to revenue to the extent of expenses incurred under these programs during the current period. Changes in the deferred contributions balance are as follows:

	2000	1999
	(thousands of dollars)	
Contributions received during the year:		
Transfers from Alberta Health under the Health Research Collaboration Agreement	$ 2,700	$ 2,700
Interest	245	303
Recoveries on Technology Commercialization	13	28
	2,958	3,031
Less amounts recognized as revenue in the current year:		
Health Research Collaboration	2,809	3,153
Medical Innovation Program	1,230	2,134
	4,039	5,287
Decrease during the year	(1,081)	(2,256)
Balance at beginning of year	5,948	8,204
Balance at end of year	$ 4,867	$ 5,948
The balance is comprised as follows:		
Medical Innovation Program	2,577	3,549
Health Research Collaboration	2,290	2,399
	$ 4,867	$ 5,948

Note 7 Net Assets

Operations include the biomedical and health programs of the Foundation which are funded from the transfers from the Endowment Fund and available cash balances. The Foundation's policy is to retain funds in the Endowment Fund and transfers are made only on an as needed basis.

Note 8 Other Programs

(a) Alberta Foundation for Health Research

The Alberta Foundation for Health Research, a wholly owned subsidiary of the Foundation, operates under The Alberta Companies Act and is a registered charity for income tax purposes. The Foundation's activities are directed to promote and support medical and health research.

(b)Medical Innovation Program

The Foundation administers funds for the Medical Innovation Program on behalf of the Government of Alberta. The Program funds the early stages of commercial development of medical and health related technologies.

(c) Health Research Collaboration

The Foundation and Alberta Health have entered into an agreement to facilitate and enhance health research and health technology assessment and their dissemination in the Province of Alberta.

Note 9 Recoveries on Technology Commercialization

The Foundation has entered into various agreements to fund technology commercialization projects. The projects involved have high scientific merit, but are speculative with both technical and commercial risk. Any recoveries by the Foundation under these agreements will be long term, in some cases at least ten years. In addition to recoveries, some agreements contain a provision for future royalty payments. Amounts ultimately receivable by the Foundation are not determinable at this time and will be recognized as revenue when they are due and collection is reasonably assured.

Note 10 Salaries and Benefits

	2000			1999		
	Salaries [1]	Benefits [2]	Total [3]	Salaries [1]	Benefits [2]	Total [3]
Chairman	$ 13,150	$ -	$ 13,150	$ 12,281	$ -	$ 12,281
Board of Trustees	82,900	1,255	84,155	78,588	1,098	79,686
President and Chief Executive Officer	202,500	58,985 [4]	261,485	188,333	48,105	236,438
	$ 298,550	$60,240	$358,790	$ 279,202	$ 49,203	$ 328,405

[1] Salaries include regular base pay, overtime, retainers, honoraria, and any other direct cash renumeration.

[2] Benefits include the Foundation's share of all employee benefits and contributions or payments made on behalf of employees including vacation accruals and payouts, pension, health care, dental coverage, medical benefits, out-of-country medical benefits, group life insurance, accidental disability and dismemberment insurance, long and short-term disability plans and professional memberships.

[3] Salaries and benefits are distributed to various expense categories including committee meetings and fees, salaries and benefits and office administration.

[4] Contributions for accrued retirement allowance were $21,200 in 2000 ($17,400 1999).

Note 11 Commitments

(a) Office Premises

The Foundation has entered into a 65 month lease for office premises.

This lease expires on May 31, 2001.

(b) Total commitments pertain to the following fiscal years:

	Grants and Awards	Office Premises	Total
	(thousands of dollars)		
2000-2001	$ 27,276	$ 57	$ 27,333
2001-2002	13,168	10	13,178
2002-2003	8,542	-	8,542
2003-2004	5,221	-	5,221
2004-2005	1,862	-	1,862
	$ 56,069	$ 67	$ 56,136

Note 12 Budget

The budget process involves the determination of the cost for the estimated number of investigators sponsored for Foundation awards and meeting standards of excellence which the Foundation could support within the spending guidelines and program objectives laid out by the Board of Trustees of the Foundation. Variance from budget is determined in a large part by the number and quality of actual applications received and deferred or declined awards.

The 1999-2000 budget was approved by the Board of Trustees in March 1999. Following is the Alberta Heritage Foundation for Medical Research unconsolidated budget:

	Actual	Budget
	(thousands of dollars)	
Revenue	$ 43,839	$ 48,463
Grants and Awards	(40,834)	(43,693)
Program Operation	(1,536)	(2,002)
Administration	(3,042)	(2,648)
Excess (deficiency) of revenue over expense	$ (1,573)	$ 120

Funds are budgeted and transferred from the Endowment Fund on an as needed basis.

Note 13 Approval of Financial Statements

These financial statements were reviewed by the Audit Committee and recommended to the Board of Trustees for approval.

ALBERTA FOUNDATION FOR HEALTH RESEARCH

FINANCIAL STATEMENTS

MARCH 31, 2000

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Net Assets

Statement of Cash Flows

Notes to the Financial Statements

AUDITOR'S REPORT

To the Board of Directors of the Alberta Foundation for Health Research

I have audited the statement of financial position of the Alberta Foundation for Health Research as at March 31, 2000 and the statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Foundation as at March 31, 2000 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Original signed by
Peter Valentine, FCA
Auditor General

Edmonton, Alberta
June 23, 2000

ALBERTA FOUNDATION FOR HEALTH RESEARCH
STATEMENT OF FINANCIAL POSITION
AS AT MARCH 31, 2000

	2000	1999
ASSETS		
Cash	$136,794	$134,312
LIABILITIES AND NET ASSETS		
Cash	$136,794	$134,312

The accompanying notes are part of these financial statements.

ALBERTA FOUNDATION FOR HEALTH RESEARCH
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31, 2000

	2000	1999
REVENUE		
Interest	$7,046	$ -
Donations	600	31,035
	7,646	31,035
EXPENSES		
Grants	-	500,000
Newsletter	-	2,308
Promotion & advertising	2,843	-
Meeting expense	1,563	-
Professional fees	758	4,997
	5,164	507,305
Excess (deficiency) of revenue over expense for the year	$2,482	$(476,270)

ALBERTA FOUNDATION FOR HEALTH RESEARCH
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED MARCH 31, 2000

	Unrestricted	2000	1999
Balance at beginning of year	$134,312	$134,312	$610,582
Excess (deficiency) of revenue over expense	2,482	2,482	(476,270)
Balance at end of year	$136,794	$136,794	$134,312

ALBERTA FOUNDATION FOR HEALTH RESEARCH
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED MARCH 31, 2000

	2000	1999
Operating activities		
Cash received from operations	$7,646	$31,035
Cash paid for program operations	(5,164)	(507,305)
Net increase (decrease) in cash for the year	2,482	(476,270)
Cash at the beginning of year	134,312	610,582
Cash at end of year	$136,794	$134,312

ALBERTA FOUNDATION FOR HEALTH RESEARCH

ALBERTA FOUNDATION FOR HEALTH RESEARCH

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2000

Note 1 Authority and Purpose

The Alberta Foundation for Health Research, a subsidiary of the Alberta Heritage Foundation for Medical Research, operates under The Alberta Companies Act and is a registered charity for income tax purposes. The Foundation was incorporated on November 17, 1994 and commenced operations during 1998. The Foundation's activities are directed to promote and support medical and health research.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Cash

Cash consists of deposits in the Consolidated Cash Investment Trust Fund of the Province of Alberta. The Fund is invested primarily in securities maturing in less than one year which are either issued or guaranteed by the Canadian federal and provincial governments, deposits given by or guaranteed by chartered banks, or short-term investment-grade-quality notes of Canadian corporations. Interest is earned on the daily cash balance at the average rate of earnings of the Fund which varies depending on prevailing market interest rates.

(b) Fair Value of Financial Instruments

Short-term instruments are valued at their carrying amounts included on the consolidated statements of financial position, which are reasonable estimates of fair value due to the relatively short period to maturity of the instruments. This approach applies to cash.

(c) Revenue Recognition

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Restricted contributions received for future expenses are deferred until that future period when they are transferred to revenue.

Unrestricted contributions are recognized as revenue in the current period if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Note 3 Budget

As the Foundation commenced operations in 1998 and has had limited activity, a budget was not prepared for 1999-2000. When appropriate the Board will determine a budgeting process, given that donations are unpredictable and operating expenses are minimal.

Note 4 Approval of Financial Statement

These financial statements were reviewed and approved by the Board of Directors.

Index of All Government Entities

ENTITIES INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Ministry, Department, Fund Or Agency	Ministry Annual Report
Agriculture Financial Services Corporation	Agriculture, Food and Rural Development
Alberta Agricultural Research Institute	Innovation and Science
Alberta Alcohol and Drug Abuse Commission	Health and Wellness
Alberta Dairy Control Board	Agriculture, Food and Rural Development
Alberta Energy and Utilities Board	Resource Development
Alberta Foundation for the Arts	Community Development
Alberta Gaming and Liquor Commission	Gaming
Alberta Government Telephones Commission, The	Treasury
Alberta Heritage Foundation for Medical Research Endowment Fund	Treasury
Alberta Heritage Savings Trust Fund	Treasury
Alberta Heritage Scholarship Fund	Treasury
Alberta Historical Resources Foundation, The	Community Development
Alberta Informatics Circle of Research Excellence Inc.	Innovation and Science
Alberta Insurance Council	Treasury
Alberta Municipal Financing Corporation	Treasury
Alberta Oil Sands Technology and Research Authority	Innovation and Science
Alberta Opportunity Company	Agriculture, Food and Rural Development
Alberta Pensions Administration Corporation	Treasury
Alberta Petroleum Marketing Commission	Resource Development
Alberta Research Council Inc.	Innovation and Science
Alberta Risk Management Fund	Treasury
Alberta School Foundation Fund	Learning

Ministry, Department, Fund Or Agency	**Ministry Annual Report**
Alberta Science, Research and Technology Authority	Innovation and Science
Alberta Securities Commission	Treasury
Alberta Social Housing Corporation	Community Development
Alberta Sport, Recreation, Parks and Wildlife Foundation	Community Development
Alberta Treasury Branches	Treasury
ATB Investment Services Inc.	Treasury
Awasak Child and Family Services Authority	Children's Services
Calgary Rocky View Child and Family Services Authority	Children's Services
Child and Family Services Authority - Region 13	Children's Services
Child and Family Services Authority - Region 14	Children's Services
Credit Union Deposit Guarantee Corporation	Treasury
Crop Reinsurance Fund of Alberta	Agriculture, Food and Rural Development
Department of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Department of Children's Services	Children's Services
Department of Community Development	Community Development
Department of Environment	Environment
Department of Gaming	Gaming
Department of Health and Wellness	Health and Wellness
Department of Innovation and Science	Innovation and Science
Department of Justice	Justice
Department of Learning	Learning
Department of Resource Development	Resource Development
Department of Treasury	Treasury
Diamond Willow Child and Family Services Authority	Children's Services
Environmental Protection and Enhancement Fund	Environment
Gainers Inc.	Treasury
Government House Foundation, The	Community Development

Ministry, Department, Fund Or Agency	Ministry Annual Report
Hearthstone Child and Family Services Authority	Children's Services
Historic Resources Fund	Community Development
Human Rights, Citizenship and Multiculturalism Education Fund	Community Development
Keystone Child and Family Services Authority	Children's Services
Lottery Fund	Gaming
Ma'Mowe Capital Region Child and Family Services Authority	Children's Services
Metis Settlements Child and Family Services Authority	Children's Services
Ministry of Agriculture, Food and Rural Development	Agriculture, Food and Rural Development
Ministry of Children's Services	Children's Services
Ministry of Community Development	Community Development
Ministry of Economic Development[1]	Economic Development
Ministry of Environment	Environment
Ministry of Executive Council[1]	Executive Council
Ministry of Gaming	Gaming
Ministry of Government Services[1]	Government Services
Ministry of Health and Wellness	Health and Wellness
Ministry of Human Resources and Employment[1]	Human Resources and Employment
Ministry of Infrastructure[1]	Infrastructure
Ministry of Innovation and Science	Innovation and Science
Ministry of International and Intergovernmental Relations[1]	International and Intergovernmental Relations
Ministry of Justice	Justice
Ministry of Learning	Learning
Ministry of Municipal Affairs[illegible]	Municipal Affairs
Ministry of Resource Development	Resource Development
Ministry of Treasury	Treasury
N.A. Properties (1994) Ltd.	Treasury
Natural Resources Conservation Board	Environment

Ministry, Department, Fund Or Agency	Ministry Annual Report
Neegan Awas'sak Child and Family Services Authority	Children's Services
Persons with Developmental Disabilities Calgary Region Community Board	Health and Wellness
Persons with Developmental Disabilities Central Alberta Community Board	Health and Wellness
Persons with Developmental Disabilities Edmonton Community Board	Health and Wellness
Persons with Developmental Disabilities Foundation	Health and Wellness
Persons with Developmental Disabilities Michener Centre Facility Board	Health and Wellness
Persons with Developmental Disabilities Northeast Alberta Community Board	Health and Wellness
Persons with Developmental Disabilities Northwest Alberta Community Board	Health and Wellness
Persons with Developmental Disabilities Provincial Board	Health and Wellness
Persons with Developmental Disabilities South Alberta Community Board	Health and Wellness
Ribstone Child and Family Services Authority	Children's Services
S C Financial Ltd.	Treasury
Sakaigun Asky Child and Family Services Authority	Children's Services
Sakaw Askiy Child and Family Services Authority	Children's Services
Silver Birch Child and Family Services Authority	Children's Services
Southeast Alberta Child and Family Services Authority	Children's Services
Sun Country Child and Family Services Authority	Children's Services
Supplementary Retirement Plan Reserve Fund	Treasury
Victims of Crime Fund	Justice
West Yellowhead Child and Family Services Authority	Children's Services
Wild Rose Foundation, The	Community Development
Windsong Child and Family Services Authority	Children's Services

ENTITIES NOT INCLUDED IN THE CONSOLIDATED GOVERNMENT REPORTING ENTITY

Fund or Agency	**Ministry Annual Report**
Alberta Cancer Board	Health and Wellness
Alberta Heritage Foundation for Medical Research	Innovation and Science
Alberta Mental Health Board	Health and Wellness
Alberta Teachers' Retirement Fund Board	Learning
Improvement Districts Trust Account	Municipal Affairs
Local Authorities Pension Plan	Treasury
Long-Term Disability Income Continuance Plan -Bargaining Unit	Human Resources and Employment
Long-Term Disability Income Continuance Plan -Management, Opted Out and Excluded	Human Resources and Employment
Management Employees Pension Plan	Treasury
Provincial Judges and Masters in Chambers Pension Plan	Treasury
Public Post Secondary Institutions	Learning
Public Service Management (Closed Membership) Pension Plan	Treasury
Public Service Pension Plan	Treasury
Regional Health Authorities	Health and Wellness
School Boards	Learning
Special Areas Trust Account	Municipal Affairs
Special Forces Pension Plan	Treasury
Universities Academic Pension Plan	Treasury
Workers' Compensation Board	Human Resources and Employment

ENDNOTES

[i] Measure used by Learning and by Treasury in *Measuring Up*.

[ii] Key performance measure has been changed from "Scientists and Engineers as a percentage of labour force" due to a change in the data collected by Statistics Canada. Starting from January 1999, the occupation classification available from the Labour Force Survey (LFS) is based on the Standard Occupational Classification 1991 (SOC91). SOC91 is fundamentally different from the previous classification system used by the LFS (SOC80) and comparisons of data based on each classification are meaningless, at any level of aggregation. The new category "Natural and Applied Sciences and Related Occupations" includes scientists, engineers, technologists and technicians and is based on SOC91.

[iii] High-speed - 10 megabits per second. At this speed, a 6000 page document could be downloaded in one second.

[iv] Schools - Includes kindergarten to grade 12 as well as post-secondary institutions. Does not include private schools.

[v] Libraries - Includes all public libraries. School libraries are included within the "schools" category.

[vi] Alphonso, Caroline. "Digital Divide narrows. Poorer, less educated make more use of Net." The Globe and Mail, July 27, 2000.

[vii] Source: *The Daily*, Friday, May 19, 2000. Household Internet Use 1999. Statistics Canada.

[viii] This key performance measure is used by Alberta Treasury in *Measuring Up*.

[ix] Source for GDP figures: Alberta Economic Accounts, 1998 - Table 1A (current dollars).

[x] This key performance measure is used by Alberta Treasury in *Measuring Up*.

[xi] IMTS operates the shared Government of Alberta computing centres located in Edmonton and Calgary as well as telecommunications facilities located throughout Alberta. The computing centres offer the following services: shared Multiple Virtual Storage Enterprise Processing, web servers, PPP dial-up, e-mail, LAN/PC backup and electronic commerce.

[xii] Voice Network - A shared service used by ministries & agencies to communicate by telephone between government locations around the province. This network also provides free access for Albertans to connect to anyone in government.

[xiii] This figure is based on seven months worth of data. In 1999/2000, there was a three-month span and separate two-month span for which the data were corrupted and were therefore unusable.

[xiv] Data Network - a shared service used by ministries and agencies to electronically transfer data between government locations around the province.

[xv] Wording of measures was changed to align with the wording in the Core Human Resource Measures Survey of Employees.

[xvi] Work experience students from both secondary and post-secondary schools, have an opportunity to gain short term work experience to assist them with their career planning or job search.

[xvii] The Co-op program gives post-secondary students an opportunity to supplement their academic studies with meaningful, full-time paid work experience.

[xviii] The purpose of the Internship program is to replenish the Alberta Public Service by providing new graduates from post-secondary institutions with meaningful work experience to allow them to compete for ongoing positions in the Alberta Public Service.

[xix] Source: Human Resources, INNSCI.

[xx] Revised from 15.6, which included $0.5 million in product sales that is included under Commercialization Revenues. The ratio has been revised to reflect error.

[xxi] Revised from 17.9, which included $1 million in product sales that is included under Commercialization Revenues. The ratio has been revised to reflect error.

[xxii] These percentages represent Employee Satisfaction, calculated from question 1 of the Employee Survey.

[xxiii] Ministry includes only the department so separate department financial statements are not necessary.